BUFFALO CITY METROPOLITAN MUNICIPALITY
UNAUDITED SEPARATE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

I am responsible for the preparation of these Annual Financial Statements which are set out herewith, in terms of Section126(1) of the Municipal Finance Management Act (56 of 2003) and which I have signed on behalf of the Metropolitan Municipalily.

I certify that the salaries, allowances and benefits of Councillors are disclosed within these Annual Financial Statements and are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act (20 of 1998) and the Minister for Corporate Governance and Traditional Affairs determination in accordance with this Act except where identified as irregular expenditure in the Annual Financial Statements.

	31/08/2017
Mr. A. Sihlahla **City Manager**	**Date**

General Information

Legal form of Municipality	Municipality
Nature of business and principal activities	Local Government
Grading of local authority	Grade 6 Municipality
City Manager	Mr. A. Sihlahla
Chief Finance Officer	Mr. V. Pillay
Jurisdiction	The demarcation board has determined that Buffalo City Metropolitan Municipality (BUF) includes the towns of East London, Bhisho, King Williams Town, Berlin as well as the townships of Mdantsane, Gompo, Zwelitsha, Dimbaza, Phakamisa, Ndevana, Ilitha, Ginsberg and the surrounding rural areas.
Business address	Trust Centre Oxford Street East London 5201
Postal address	PO Box 134 East London 5200
Bankers	Absa Bank
Auditors	Auditor General of South Africa
Members of Audit Committee	Ms. R. Shaw (Chairperson) - appointment 03 July 2017 Ms. Y. Roboji (Member) - appointment 03 July 2017 Mr. P. Ntuli (Member) - appointment 03 July 2017 Mr. S. Sokutu (Member) - appointment 03 July 2017 Ms. P. Mzizi (Member) - appointment 03 July 2017 Mr. T. Zororo (Member) - appointment 03 July 2017
Members of Previous Audit Committee	Mr. V. Pangwa (Chairperson) - appointment 01 November 2011 (contract ended 30 November 2016) Mr. S. Mkebe (Member) - appointment 01 November 2011 (contract ended 30 November 2016) Ms. E. Ameyaw - Gyarko (Member) - appointment 01 November 2011 (contract ended 30 November 2016) Ms. W. Dukuza (Member) - appointment 03 March 2014 (contract ended 30 June 2017) Mr. H. Marsberg (Member) - appointment 03 March 2014 (contract ended 30 June 2017) Prof. T.M. Jordan (Member) - appointment 03 March 2014 (contract ended 30 June 2017)

General Information

Legislation Governing the Municipality	The Constitution of the Republic of South Africa,1996 The Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) The Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) The Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) Local Government: Municipal Property Rates Act, 2004 (Act 6 of 2004) Municipal Fiscal Powers and Functions Act, 2007 (Act 12 of 2007) Local Government: Municipal Demarcation Act, 1998 (Act 27 of 1998) Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005)

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The statements and notes set out below comprise the unaudited separate annual financial statements:

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Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
Assets			
Current Assets			
Inventories	10	38 544 536	36 030 237
Current portion of operating leases	8	2 638 016	2 929 996
Receivables from non-exchange transactions	11	891 315 703	695 008 017
VAT receivable	12	100 950 585	96 847 762
Receivables from exchange transations	13	464 300 775	364 776 628
Cash and cash equivalents	14	1 688 435 101	2 373 900 234
		3 186 184 716	**3 569 492 874**
Non-Current Assets			
Investment property	3	408 315 388	342 030 031
Property, plant and equipment	4	15 837 669 465	12 978 473 653
Intangible assets	5	5 486 753	85 947 745
Heritage assets	6	49 779 875	49 632 925
Investments in associates	7	127 539 335	112 291 660
Non-current portion of operating leases	8	72 081 541	69 017 614
		16 500 872 357	**13 637 393 628**
Total Assets		**19 687 057 073**	**17 206 886 502**
Liabilities			
Current Liabilities			
Borrowings	17	47 641 565	50 709 031
Payables from exchange transactions	21	872 456 134	1 080 606 886
Consumer deposits	22	57 321 210	53 708 070
Post - retirement medical obligations	9	20 347 264	16 966 927
Unspent conditional grants and receipts	16	250 830 274	211 266 395
Provisions	18	166 377 115	174 862 785
Deffered income	19	61 317 334	-
		1 476 290 896	**1 588 120 094**
Non-Current Liabilities			
Borrowings	17	398 126 111	445 767 675
Post - retirement medical obligations	9	506 950 957	488 148 977
Provisions	18	10 114 962	10 222 692
		915 192 030	**944 139 344**
Total Liabilities		**2 391 482 926**	**2 532 259 438**
Net Assets		**17 295 574 147**	**14 674 627 064**
Reserves:			
Revaluation reserve	15	6 972 904 509	4 613 940 840
Accumulated surplus		10 322 669 638	10 060 686 225
Total Net Assets		**17 295 574 147**	**14 674 627 065**

* See Note 44

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	24	2 856 882 199	2 736 900 918
Rental of facilities and equipment		19 062 021	16 583 409
Licences and permits		14 107 061	12 611 825
Other revenue	25	207 291 263	262 224 403
Interest received	26	198 236 537	187 367 781
Total revenue from exchange transactions		**3 295 579 081**	**3 215 688 336**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	27	991 199 453	864 211 435
Transfer revenue			
Government grants & subsidies	29	1 563 667 377	1 634 064 238
Fines		16 895 710	5 593 754
Fuel levy		410 031 000	370 461 000
Total revenue from non-exchange transactions		**2 981 793 540**	**2 874 330 427**
Total revenue	23	**6 277 372 621**	**6 090 018 763**
Expenditure			
Employee related costs	30	(1 550 852 130)	(1 410 452 051)
Remuneration of councillors	31	(55 023 304)	(53 689 005)
Depreciation and amortisation	33	(806 719 661)	(867 435 544)
Finance costs	34	(49 359 417)	(60 947 417)
Debt impairment	35	(310 915 665)	(210 111 414)
Repairs and maintenance	32	(382 954 054)	(344 238 201)
Bulk purchases	36	(1 558 513 807)	(1 427 317 753)
Grants and subsidies paid	28	(410 078 267)	(241 686 261)
General expenses	37	(880 000 037)	(970 718 193)
Total expenditure		**(6 004 416 342)**	**(5 586 595 839)**
Operating surplus		**272 956 279**	**503 422 924**
Gain/(loss) on disposal of assets and liabilities	4	(31 188 569)	(176 306 785)
Fair value adjustments	38	4 968 023	12 978 070
Share of surplus of associate accounted for under the equity method	7	15 247 675	30 383 365
		(10 972 871)	**(132 945 350)**
Surplus for the year	55	**261 983 408**	**370 477 574**

* See Note 44

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	4 622 680 892	9 382 218 466	14 004 899 358
Adjustments:			
Prior year adjustments (prior to 2015/16) Refer note 44	-	307 990 185	307 990 185
Balance at 01 July 2015 as restated*	**4 622 680 892**	**9 690 208 651**	**14 312 889 543**
Changes in net assets:			
Revaluation reserve realised	(3 007 379)	-	(3 007 379)
Disposal of asset	(5 732 673)	-	(5 732 673)
Sub-Total	(8 740 052)	-	(8 740 052)
Surplus for the year (2015/16 restated) Refer note 44	-	370 477 574	370 477 574
Total recognised income and expenses for the year	(8 740 052)	370 477 574	361 737 522
Total changes	(8 740 052)	370 477 574	361 737 522
Restated* Balance at 01 July 2016	**4 613 940 840**	**10 060 686 230**	**14 674 627 070**
Changes in net assets:			
Revaluation reserve	2 358 963 669	-	2 358 963 669
Net income recognised directly in net assets	2 358 963 669	-	2 358 963 669
Surplus for the year	-	261 983 408	261 983 408
Total recognised income and expenses for the year	2 358 963 669	261 983 408	2 620 947 077
Total changes	2 358 963 669	261 983 408	2 620 947 077
Balance at 30 June 2017	**6 972 904 509**	**10 322 669 638**	**17 295 574 147**
Note(s)	15	44	

* See Note 44

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services	54	3 933 035 008	3 850 913 676
Government grants & subsidies	54	1 563 667 377	1 634 064 238
Interest received	26	198 236 537	187 367 781
		5 694 938 922	5 672 345 695
Payments			
Employee costs & Councillors remuneration	30&31	(1 605 875 434)	(1 464 141 056)
Suppliers	54	(3 507 025 953)	(2 570 558 783)
Finance costs	34	(49 359 417)	(60 947 417)
		(5 162 260 804)	(4 095 647 256)
Net cash flows used in operating activities	40	**532 678 118**	**1 576 698 439**
Cash flows from in investing activities			
Purchase of property, plant and equipment	4	(1 170 244 958)	(1 192 344 631)
Proceeds from sale of property, plant and equipment	4	(655 453)	(164 878 787)
Purchase of investment property	3	(61 317 334)	-
Purchases of heritage assets	6	(146 950)	-
Net movement in long term receivables		-	26 992
Net cash flows used in investing activities		**(1 232 364 695)**	**(1 357 196 426)**
Cash flows from financing activities			
Net movement on borrowings	17	(50 709 030)	(46 097 194)
Movement in financcial assets by category		61 317 334	-
Net movement on finance leases		-	(3 505 282)
Net movement on consumer deposits	22	3 613 140	5 203 348
Net cash flows used in financing activities		**14 221 444**	**(44 399 128)**
Net (decrease)/increase in cash and cash equivalents		**(685 465 133)**	**175 102 885**
Cash and cash equivalents at the beginning of the year		2 373 900 234	2 198 797 348
Cash and cash equivalents at the end of the year	14	**1 688 435 101**	**2 373 900 233**

Statement of Comparison of Budget and Actual Amounts

2017

Financial Performance

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Property rates	1 122 920 106	-	1 122 920 106	-		1 122 920 106	991 199 453		(131 720 653)	88 %	88 %
Service charges	2 928 610 040	-	2 928 610 040	-		2 928 610 040	2 856 882 199		(71 727 841)	98 %	98 %
Investment revenue	143 775 020	-	143 775 020	-		143 775 020	198 236 537		54 461 517	138 %	138 %
Transfers recognised - operational	1 319 728 331	34 307 008	1 354 035 339	-		1 354 035 339	893 887 042		(460 148 297)	66 %	68 %
Other own revenue	391 736 956	-	391 736 956	-		391 736 956	672 355 078		280 618 122	172 %	172 %
Total revenue (excluding capital transfers and contributions)	**5 906 770 453**	**34 307 008**	**5 941 077 461**	**-**		**5 941 077 461**	**5 612 560 309**		**(328 517 152)**	**94 %**	**95 %**
Employee costs	1 531 068 329	(18 640 870)	1 512 427 459	-	-	1 512 427 459	(1 550 852 130)	-	(38 424 671)	(103)%	(101)%
Remuneration of councillors	58 098 804	(3 000 003)	55 098 801	-	-	55 098 801	(55 023 304)	-	75 497	(100)%	(95)%
Debt impairment	303 864 761	7 050 905	310 915 666			310 915 666	(310 915 665)	-	1	(100)%	(102)%
Depreciation and asset impairment	748 339 019	46 330 874	794 669 893			794 669 893	(806 719 661)	-	(12 049 768)	(102)%	(108)%
Finance charges	57 105 142	(7 700 000)	49 405 142	-	-	49 405 142	(49 359 417)	-	45 725	(100)%	(86)%
Materials and bulk purchases	1 521 587 433	36 926 380	1 558 513 813	-	-	1 558 513 813	(1 558 513 807)	-	6	(100)%	(102)%
Transfers and grants	288 467 764	121 680 620	410 148 384	-	-	410 148 384	(410 078 267)	-	70 117	(100)%	(142)%
Other expenditure	1 397 161 107	(148 340 899)	1 248 820 208	-	-	1 248 820 208	(1 294 142 660)	-	(45 322 452)	(104)%	(93)%
Total expenditure	**5 905 692 359**	**34 307 007**	**5 939 999 366**	**-**	**-**	**5 939 999 366**	**(6 035 604 911)**	**-**	**(95 605 545)**	**(102)%**	**(102)%**
Surplus/(Deficit)	**1 812 462 812**	**68 614 016**	**1 881 076 828**	**-**		**1 881 076 827**	**(423 044 602)**		**(424 122 697)**	**(4)%**	**(4)%**

Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	848 269 030	(115 641 227)	732 627 803	-		732 627 803	669 780 335		(62 847 468)	91 %	79 %
Surplus (Deficit) after capital transfers and contributions	**2 660 731 842**	**(47 027 211)**	**2 613 704 631**	**-**		**2 613 704 630**	**246 735 733**		**2 366 968 897)**	**2 %**	**2 %**
Share of surplus (deficit) of associate	-	-	-	-		-	(15 247 675)		(15 247 675)	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	**2 660 731 842**	**(47 027 211)**	**2 613 704 631**	**-**		**2 613 704 630**	**261 983 408**		**2 351 721 222)**	**2 %**	**2 %**

BUFFALO CITY METROPOLITAN MUNICIPALITY

Unaudited Separate Annual Financial Statements for the year ended 30 June 2017

Capital expenditure and funds sources

Total capital expenditure	1 488 552 133	5 274 979	1 493 827 112	-		1 493 827 112	1 170 244 958		(323 582 154)	78 %	79 %
Sources of capital funds											
Transfers recognised - capital	848 269 030	(115 641 228)	732 627 802	-		732 627 802	669 780 335		(62 847 467)	91 %	79 %
Borrowing	69 581 825	(69 581 825)	-	-		-	-		-	DIV/0 %	- %
Internally generated funds	640 283 103	120 916 207	761 199 310	-		761 199 310	500 464 623		(260 734 687)	66 %	78 %
Total sources of capital funds	**1 558 133 958**	**(64 306 846)**	**1 493 827 112**	**-**		**1 493 827 112**	**1 170 244 958**		**(323 582 154)**	**78 %**	**75 %**

Cash flows

Net cash from (used) operating	1 648 937 578	(147 577 999)	1 501 359 579	-		1 501 359 579	532 678 118		(968 681 461)	35 %	32 %
Net cash from (used) investing	(1 558 133 958)	64 306 846	(1 493 827 112)	-		(1 493 827 112)	(1 232 364 695)		261 462 417	82 %	79 %
Net cash from (used) financing	17 756 930	(69 581 825)	(51 824 895)	-		(51 824 895)	14 221 444		66 046 339	(27)%	80 %
Net increase/(decrease) in cash and cash equivalents	**108 560 550**	**(152 852 978)**	**(44 292 428)**	**-**		**(44 292 428)**	**(685 465 133)**		**(641 172 705)**	**1 548 %**	**(631)%**
Cash and cash equivalents at the beginning of the year	2 382 186 465	-	2 382 186 465	-		2 382 186 465	2 373 900 234		(8 286 231)	100 %	100 %
Cash and cash equivalents at year end	**2 490 747 015**	**(152 852 978)**	**2 337 894 037**	**-**		**2 337 894 037**	**1 688 435 101**		**649 458 936**	**72 %**	**68 %**

Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome

Reasons for material variances shown on the Statement of Comparison of Budget and Actual Amounts are detailed below:

REVENUE

Property Rates

The current rating tariff for vacant land is three (3) times higher than the residential tariff, leading to reduction of revenue in most cases when a property is improved, as the value of the property will increase, whereas a lower rating factor is applied.

Other Own Revenue

Other revenue is made of numerous miscellaneous items (e.g. town planning fees, fire levy charges, market income, road & transport registration fees, cemetery and burial fees, etc). The revenue items contributing to the material variance are the following:

- Transport fees: loss of revenue is due to reduced bus services, buses have been reduced from twenty-one(21) to five (5)

  as they will be completed by July 2017, the purpose of the study is to assess whether the municipality should run or outsource the bus service
- Vehicle Registration Fees: loss of revenue can be attributed to the fact that licences and permits can be renewed at the Post Office and Provincial Traffic Departmet in Wilsonia.
- Collection Charges: this relates to the recoverable legal costs to be recovered from debtors.

Accounting Policies

1. Presentation of Unaudited Separate Annual Financial Statements

The unaudited separate annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (No. 56 of 2003).

These unaudited separate annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these unaudited separate annual financial statements, are disclosed below.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the unaudited separate annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the unaudited separate annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the unaudited separate annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Allowance for slow moving, damaged and obsolete stock

An allowance has been made for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the notes to the financial statements per inventory note 10.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors i.e. production estimates, supply demand, together with economic factors such as exchange rates, inflation, interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

1.1 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 9.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

Impairment loss is recognised in surplus and deficit when there is objective evidence that debtors are impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both - or under construction) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services, or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property excludes owner-occupied property.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.2 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the municipality determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the municipality measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The municipality applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:
(a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
(b) commencement of development with a view to sale, for a transfer from investment property to inventories;
(c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
(d) commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.

The initial cost of a property interest held under a lease and classified as an investment property has been recognised at the lower of the fair value of the property and the present value of the minimum lease payments.

1.3 Property, plant and equipment

Property, plant and equipment are tangible and intangible assets associated with land and are non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

1.3 Property, plant and equipment (continued)

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and standby equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and standby equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses, except for land, buildings, other properties , community properties, roads, electricity, water and sanitation which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in net assets related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value except for furniture and fittings, which are depreciated using the diminishing balance method at 10% per annum.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land landfill sites	Straight line	50
Buildings	Straight line	30 to 60
Plant and machinery	Straight line	3 to 30
Motor vehicles	Straight line	4 to 15
Furniture and fittings	Diminishing balance	3 to 7
Electricity	Straight line	30 to 60
Community - Buildings	Straight line	30 to 60
Community - Recreation	Straight line	15 to 60
Other properties	Straight line	5 to 60

1.3 Property, plant and equipment (continued)

Finance Leased Assets	Straight line	5
Roads	Straight line	5 to 100
Wastewater network	Straight line	5 to 80
Water network	Straight line	5 to 150
Heritage Assets	Straight line	Indefinite
Servitudes	Straight line	Indefinite

The Municipality acquires and maintains assets to provide social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residual values are determined other than that of certain Plant and Equipment, and Transport assets with significant carrying values. For Plant and Equipment and Transport assets (Above R5000) the residual value and the useful life of an asset and the deprecation method is reviewed annually and any changes are recognised prospectively as a change in accounting estimates in the Statement of Financial Performance. Minor assets (Below R5000) are recognised and depreciated annually to R1 and are included in the asset register mainly for completeness and monitoring purposes.

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of PPE are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised and will be classified as revenue. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the municipality.

Servitudes are recognised as a component of property, plant and equipment as it is directly linked to the location and construction of infrastructure assets.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

Accounting Policies

1.4 Site restoration and dismantling cost (continued)

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and

(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.5 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from a municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability, or
- arises from contractual rights or other legal rights, regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 years

Accounting Policies

1.5 Intangible assets (continued)

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.6 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Assets are resources controlled by a municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

A class of heritage assets means a grouping of heritage assets of a similar nature or function in a municipality's operations that is shown as a single item for the purpose of disclosure in the unaudited separate annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

If a municipality holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that a heritage asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

1.6 Heritage assets (continued)

Derecognition

The municipality derecognises heritage assets on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.7 Investments in associates

An associate is a municipality over which the municipality is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investment.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

The carrying value of the investment in associates is adjusted for the municipality's share of operating surpluses/ (deficits) less any dividends received.

Where the municipality or its entities transact with an associate, unrealised gains and losses are eliminated to the extent of the municipality's or its municipal entities' interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Where the municipality is no longer able to exercise significant influence over the associate, the equity method of accounting is discontinued.

The municipality uses the most recent available financial statements of the associate in applying the equity method. When the reporting dates are different, the municipality makes adjustments for the effects of any significant events or transactions between the investor and the associate that occur between the different reporting dates. Adjustments are made to ensure consistency between the accounting policies of the associate and the municipality.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by a municipality on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from a municipality’s statement of financial position.

1.8 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, a municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by a municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the municipality designates at fair value at initial recognition; or
- are held for trading.

1.8 Financial instruments (continued)

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position and in note 19:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Long-term receivables	Financial asset measured at amortised cost
Non-current investments	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position and in note 20:

Class	Category
Borrowings	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Accrued leave pay	Financial liability measured at amortised cost
Payment received in advance	Financial liability measured at amortised cost
Consmer deposits	Financial liability measured at fair value
Other deposits	Financial liability measured at fair value

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, a municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the municipality reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

1.8 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

1.9 Leases

A lease is either a written or implied contract by which an owner (the lessor) of a specific asset grants a second party (the lessee) the right to its exclusive possession and use for a specific period and under spedific conditions, in return for specific periodic rental or lease payments.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease or the incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate reduction on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.9 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated municipality, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

The carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

1.11 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation and/or amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated municipality, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation/amortisation.

The carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation and/or amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

The recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

(b) the number of production or similar units expected to be obtained from the asset by the municipality.

At each reporting date a review is carried out to determine whether there are any indications that any assets and non-cash-generating units may be impaired. If such indications exist, the recoverable amounts of the affected assets are determined.

Where the recoverable amount of an asset or non-cash-generating unit is lower than its carrying amount, an impairment loss is recognised in surplus or deficit in respect of assets at historic cost, and recognised in the the revaluation reserve in respect of assets at revalued amounts.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Value in use

The value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of the non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation / amortisation charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation/amortisation charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- a municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits.

A constructive obligation is an obligation that derives from a municipality's actions whereby an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1.13 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which a municipality provides post-employment benefits for one or more employees.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which a municipality pays fixed contributions into a separate municipality fund and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, a municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise of expense adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by a municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement.

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

1.13 Employee benefits (continued)

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the unaudited separate annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a municipality shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. Within surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.14 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in municipality combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingencies are disclosed in note 42.

1.15 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognised elsewhere in the financial statements.

At the end of each financial period the municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed as a note in the annual financial statements differentiating between community, infrastructure and other capital expenditure commitments. (Refer to note 41)

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

1.16 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Service charges relating to solid waste, sanitation and sewerage are levied in terms of the approved tariffs.

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and revenue is recognised in the period when the consumption took place. Provisional estimates of consumption are made monthly when meter readings have not been performed. Adjustments to provisional estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period.

To include all revenue in the financial period, calculations and accruals are made to account for consumption that took place during the last meter reading dates and the financial year end.

Services provided on a prepayment basis are recognised at the point of sale. An adjustment for an unutilised portion is made at year-end, based on the average consumption history.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

1.16 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of municipality assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises, when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Fines are economic benefits or service potential received or receivable by municipalities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

Taxes such as property rates are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes (Property rates)

The municipality recognises an asset in respect of taxes at the gross amount when the taxable event occurs and the asset recognition criteria are met.

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

Accounting Policies

1.19 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits or service potential to the municipality, and the costs can be measured reliably. The municipality applies this consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the municipality. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets and Inventories as per accounting policy number 1.10, 1.11 and 1.12. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.24 Use of estimates

The preparation of unaudited separate annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the unaudited separate annual financial statements are disclosed in the relevant sections of the unaudited separate annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.25 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.26 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.27 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.28 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

Accounting Policies

1.28 Budget information (continued)

General purpose financial reporting by the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

The budget for the economic municipality includes all the entities approved budgets under its control.

Comparative information is not required.

Differences between budget and actual amounts are regarded as material differences when a 10% difference exists. All material differences are explained in the Statement of Comparison of Budget and Actual Amounts to the annual financial statements.

1.29 Related parties

Parties are considered to be related if one party directly or indirectly has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or is a member of the key management of the municipality / municipal municipality. (Refer to note 43)

1.30 Value added tax (VAT)

The municipality accounts for value added tax on the payment basis. Revenue, expenses and assets are recognised net of the amount of VAT. The net amount of VAT recoverable from or payable to, the taxation authority is disclosed on the face of the statement of financial position. (Refer to note 12)

1.31 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Notes to the Unaudited Separate Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 July 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	08 July 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 July 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 July 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 July 2020	Unlikely there will be a material impact
• GRAP 110: Living and Non-living Resources	01 July 2020	Unlikely there will be a material impact
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	Unlikely there will be a material impact
• GRAP 20: Related parties	01 July 2018	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 July 2018	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 July 2018	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 July 2018	Unlikely there will be a material impact

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

3. Investment property

	2017			2016		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	408 315 388	-	408 315 388	342 030 031	-	342 030 031

Reconciliation of investment property - 2017

	Opening balance	**Movements/Adjustments**	**Fair value adjustments**	**Total**
Investment property	342 030 031	61 317 334	4 968 023	408 315 388

Reconciliation of investment property - 2016

	Opening balance	**Fair value adjustments**	**Total**
Investment property	328 302 102	13 727 929	342 030 031

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

No Investment Properties were pledged as security.

The total direct operating expenses for repairs and maintenance on all municipal properties amounts to R350 156 438 including repairs and maintenance expenses on investment properties.

Operational expenditure regarding investment property earning rentals and those that are not earning rentals are not available as these expenses pertaining to investment properties are not budgeted for separately on the budget.

Per accounting policies note 1.2 the municipality is on the fair value model for investment property.

There are no restrictions on investment properties.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

The values were determined by an external Professional Valuer registered with the South African Council for the Property Valuers Profession, Registration No. 4973/1.

The value of investment property, comprising of land and buildings was determined by using a combination of three valuation approaches. Each of these approaches assessed the relevance of each specific property based on their nature, use and comparible market transactions.

The preferred valuation methodology applied was that of comparible market related sales, based on use, location and extent. In cases where no reasonable comparable sales were available, the discounted cash flow methodology was used based on market related rentals for similar properties.

In the case of properties which were deemed to be classified as investment properties, for which no comparable market related sales nor rentals exist, such as golf courses, land was valued by multiplying the extent, as confirmed through the deeds office and cadastre, with comparable market related sales based on similar zoning, and not use. In the case of buildings associated with such properties, for which no comparable sales, past or present, could be established, the replacement cost of the buildings were deemed to reflect a fair value of the property.

Rental income from investment properties in respect of monthly and annual leases amounted to R 13 164 817 (2016: R10 696 877).

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

4. Property, plant and equipment

	2017			2016		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	386 313 045	-	386 313 045	386 313 045	-	386 313 045
Buildings	142 215 760	-	142 215 760	-	-	-
Plant and equipment	107 019 618	(74 600 842)	32 418 776	112 134 039	(73 257 288)	38 876 751
Furniture and fittings	60 521 323	(40 943 205)	19 578 118	47 474 810	(23 408 752)	24 066 058
Motor vehicles	424 626 076	(161 138 456)	263 487 620	355 373 613	(141 940 026)	213 433 587
Office equipment	47 120 443	(30 028 154)	17 092 289	46 916 766	(30 028 154)	16 888 612
Electricity infrastructure	8 524 282 171	(5 395 271 432)	3 129 010 739	4 612 972 728	(2 809 135 130)	1 803 837 598
Other properties	1 516 827 722	(704 356 741)	812 470 981	1 187 983 715	(587 423 147)	600 560 568
Work in progress (WIP)	1 638 584 398	-	1 638 584 398	1 638 584 398	-	1 638 584 398
Recreational facilities	695 695 092	(450 532 264)	245 162 828	480 102 989	(313 281 140)	166 821 849
Finance Leased Assets	88 042	(88 042)	-	8 302 521	(5 428 567)	2 873 954
Roads	0 955 752 612	(6 169 867 900)	4 785 884 712	7 998 811 390	(4 087 999 064)	3 910 812 326
Wastewater network	4 076 729 219	(2 716 407 111)	1 360 322 108	5 297 183 633	(3 460 117 037)	1 837 066 596
Water network	5 715 131 949	(3 620 813 233)	2 094 318 716	5 373 868 166	(3 504 415 697)	1 869 452 469
Community buildings	1 856 544 340	(945 734 965)	910 809 375	1 146 251 462	(677 365 620)	468 885 842
Total	**36 147 451 810**	**(20 309 782 345)**	**15 837 669 465**	**28 692 273 275**	**(15 713 799 622)**	**12 978 473 653**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	WIP Capitalised	Transfers	Revaluations	Depreciation	Impairment reversal	Total
Land	386 313 046	-	-	-	-	-	-	-	386 313 046
Buildings	-	-	-	-	71 374 228	70 841 532	-	-	142 215 760
Plant and equipment	38 876 751	1 529 677	(55 189)	-	-	-	(7 932 463)	-	32 418 776
Furniture and fittings	24 066 058	3 602 041	(33 798)	-	-	-	(8 056 183)	-	19 578 118
Motor vehicles	213 433 587	73 622 154	(1 518 082)	-	-	-	(22 131 039)	81 000	263 487 620
Office equipment	16 888 612	9 841 348	-	-	-	-	(9 637 671)	-	17 092 289
Electricity infrastructure	1 803 837 598	111 094 212	(7 626 184)	2 945 939	-	1 323 742 816	(104 983 642)	-	3 129 010 739
Other properties (halls, social housing)	600 560 568	-	-	1 758 195	(10 195)	235 361 614	(32 441 639)	7 242 439	812 470 981
Work in progress (WIP)	1 638 584 398	932 347 880	-	(261 984 727)	(670 363 153)	-	-	-	1 638 584 398
Recreational facilities	166 821 849	371 198	-	1 848 678	-	92 195 813	(16 074 710)	-	245 162 828
Finance leased Assets	2 873 959	-	(2 871 070)	-	-	-	(2 889)	-	-
Roads	3 910 812 326	25 702 959	(17 392 791)	243 049 666	449 322 159	504 977 894	(330 587 501)	-	4 785 884 712
Wastewater network	1 837 066 596	-	-	1 462 720	-	(370 943 340)	(107 263 868)	-	1 360 322 108
Water network	1 869 452 469	-	-	9 651 572	-	331 612 211	(116 397 536)	-	2 094 318 716
Community buildings	468 885 842	12 133 489	(1 036 002)	1 267 960	-	465 547 739	(38 764 617)	2 774 964	910 809 375
	12 978 473 659	**1 170 244 958**	**(30 533 116)**	**3**	**(149 676 961)**	**2 653 336 279**	**(794 273 758)**	**10 098 403**	**15 837 669 466**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Adjustments	WIP Capitalised	Non-cash additions	Revaluations	Depreciation	Total
Land	386 313 045	-	-	-	-	-	-	-	-	386 313 045
Plant and equipment	27 741 199	20 436 102	(53 970)	-	-	111 496	-	-	(9 358 076)	38 876 751
Furniture and fittings	25 291 115	1 797 836	(998 656)	-	-	6 135 570	-	-	(8 159 807)	24 066 058
Motor vehicles	188 851 222	38 290 409	(663 111)	-	-	-	-	-	(13 044 933)	213 433 587
Office equipment	24 749 588	3 135 993	(456 246)	-	-	-	-	-	(10 540 723)	16 888 612
Electricity infrastructure	1 782 379 302	137 711 686	(6 502 028)	-	-	1 076 950	-	-	(110 828 312)	1 803 837 598
Other properties (halls, social housing)	595 089 293	29 074 502	(107 576)	74 838	8 417 824	1 438 270	-	(179 295)	(33 247 288)	600 560 568
Work in progress (WIP)	1 131 263 970	828 395 393	-	(3 776 198)	(275 052)	(317 023 715)	-	-	-	1 638 584 398
Recreational facilities	184 094 091	495 614	(208 302)	-	-	114 900	-	(254 538)	(17 419 916)	166 821 849
Finance Leased Assets	4 522 599	-	(293 540)	-	-	-	-	-	(1 355 105)	2 873 954
Roads	3 882 519 475	107 170 844	(2 089 962)	-	-	269 558 679	3 367 756	(56 146 319)	(293 568 147)	3 910 812 326
Wastewater network	1 890 831 080	8 974 617	-	-	-	44 232 317	-	(6 224)	(106 965 194)	1 837 066 596
Water network	2 003 849 271	7 474 646	-	-	-	-	-	-	(141 871 448)	1 869 452 469
Community buildings	501 742 477	9 386 989	(54 607)	-	-	602 599	-	(465 663)	(42 325 953)	468 885 842
	12 629 237 727	**1 192 344 631**	**(11 427 998)**	**(3 701 360)**	**8 142 772**	**6 247 066**	**3 367 756**	**(57 052 039)**	**(788 684 902)**	**12 978 473 653**

Proceeds on disposal of PPE	**2017**	**2016**
Carrying value of PPE	30 533 116	11 427 998
Net gain/(loss) on disposal of assets	(31 188 569)	(176 306 785)
	(655 453)	**(164 878 787)**

There are currently 24 092 assets that have carrying values between R0.00 and R1.00, which are still in use.

As at 30 June 2017 the total cost of all fully depreciated assets amount to R103 398 316 (2016: R 85 440 732).

As at 30 June 2017 there are assets retired from active use and held for disposal.

For future capital commitments refer to note 41.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

There are properties for which title deeds are registered under the name of the municipality have not been included in the Municipality's financial records. These properties are represented by RDP land, ex Ciskei and other land parcels, vacant and improved. The municipality is of the view that these properties will have a net realisable value of NIL as they will either be transferred to RDP housing beneficiaries or have long serving residents for which there has been a delay in the transfer of title. It should furthermore be noted that management is of the view that the inclusion of these properties in the Annual Financial Statements could result in a misrepresentation of financial information for users of the Annual Financial Statements.

WIP categories	44		
Roads		1 181 485 680	1 008 900 700
Electricity		541 612 073	309 712 718
Waste water network		21 163 628	13 486 996
Community buildings		141 504 069	270 478 130
Other		490 559 458	74 898 279
		2 376 324 908	**1 677 476 823**

The carrying value of property plant and equipment that is taking a significantly longer period of time to complete than expected is R288 236 218.59 and is associtated with community unrest.

The carrying value of property and equipment where construction or development has been iether halted during the current or previous reporting periods is R288 236.59with reasons for halting being community unrest

Prior period errors - Furniture and Office Equipment	44		
Balance previously reported		-	18 285 139
Adjusted		-	(354 651)
Restated		**-**	**17 930 488**

Prior period errors - WIP	44		
Balance previously reported		-	1 703 369 029
Adjusted		-	(84 785 769)
Restated		**-**	**1 618 583 260**

Prior period errors - Roads	44		
Balance previously reported		-	3 701 448 375
Adjusted		-	209 363 950

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Restated		**-**	**3 910 812 325**
Prior period errors - Wastewater network	**44**		
Balance previously reported		-	1 837 007 611
Adjusted		-	58 984
Restated		**-**	**1 837 066 595**
Prior period errors - Furniture, Office Equipment and Plant and Machinery	**44**		
Balance previously reported		-	18 285 139
Adjusted		-	5 892 415
Restated		**-**	**24 177 554**
Prior period errors - Electricity network	**44**		
Balance previously reported		-	1 803 041 397
Adjusted		-	796 201
Restated		**-**	**1 803 837 598**
Prior period errors - Other properties	**44**		
Balance previously reported		-	601 051 255
Adjusted		-	(490 687)
Restated		**-**	**600 560 568**
Prior period errors - Recreational Facilities	**44**		
Balance previously reported		-	166 756 652
Adjusted		-	65 196
Restated		**-**	**166 821 848**
Prior preriod Error - Water Network			
Balance previously reported		-	1 879 498 148
Adjusted		-	(10 045 679)

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Restated	**-**	**1 869 452 469**

Prior period Error - Community Buildings

Balance previously reported	-	467 553 677
Adjusted	-	(2 188 161)
	-	**465 365 516**

5. Intangible assets

	2017			2016		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	41 404 541	(35 917 788)	5 486 753	41 404 541	(26 831 025)	14 573 516
Intangible assets under development	-	-	-	1	-	1
Servitudes	-	-	-	71 374 228	-	71 374 228
Total	**41 404 541**	**(35 917 788)**	**5 486 753**	**112 778 770**	**(26 831 025)**	**85 947 745**

Reconciliation of intangible assets - 2017

	Opening balance	**Transfers**	**Amortisation**	**Total**
Computer software	14 573 516	-	(9 086 762)	5 486 754
Servitudes	71 374 228	(71 374 228)	-	-
	85 947 744	**(71 374 228)**	**(9 086 762)**	**5 486 754**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

5. Intangible assets (continued)

Reconciliation of intangible assets - 2016

	Opening balance	WIP transfers	Amortisation	Total
Computer software	7 719 064	16 021 505	(9 167 053)	14 573 516
Intangible assets under development (software)	16 021 505	(16 021 505)	-	-
Servitudes	71 374 228	-	-	71 374 228
	95 114 797	**-**	**(9 167 053)**	**85 947 744**

6. Heritage assets

	2017			2016		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Heritage sites	49 779 875	-	49 779 875	49 632 925	-	49 632 925

Reconciliation of heritage assets 2017

	Opening balance	Additions	Total
Heritage sites	49 632 925	146 950	49 779 875

Reconciliation of heritage assets 2016

	Opening balance	Total
Heritage sites	49 632 925	49 632 925

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to the uncertainty regarding their estimated useful lives. (This is an accounting disclosure)

Where practical, heritage assets were valued on the replacement value method and retrospectively restated on 01 July 2012 in accordance with the transitional provision applicable to GRAP 103. However, due to the nature of certain heritage assets, it is not possible or practical to establish a fair value associated with these assets and have been recognised in accordance with GRAP 103.94.

7. Investments in associate

Name of entity		% holding 2017	% holding 2016	Carrying amount 2017	Carrying amount 2016
BCMM share in IDZ - 26,000 shares @ 0,01c included in the carrying amount	Unlisted	26,00 %	26,00 %	127 539 335	112 291 660

The carrying amount of the associate is shown net of impairment losses.

Movements in carrying value

	2017	2016
Opening balance	112 291 660	81 908 295
Share of surplus	15 247 675	30 383 365
	127 539 335	**112 291 660**

Investment in associate amounted to R 127 539 335 (2016: R 112 291 660).

Figures in Rand	2017	2016

7. Investments in associate (continued)

Fair value

Management could not make a reliable estimate of the fair value of the associate as the information to determine the fair value is not readily available. Management however believes that the face value approximates the fair value of the shares.

Principal activities, country of incorporation and voting power

Legal name	Principal activity	Country of incorporation	Proportion of voting power
East London Industrial Development Zone (Pty)Ltd	Development of East London's Industrial Development Zone.	SA	26%

Summary of controlled municipality's interest in associate

	2017	2016
Total assets	537 478 296	540 209 663
Total liabilities	409 938 962	427 918 003
Revenue	31 111 930	28 759 383
Surplus	15 247 675	30 383 365
Total equity	**127 539 335**	**112 291 660**

Associates with different reporting dates

The financial statements of East London Industrial Development Zone (Proprietary) Limited are prepared for the accounting period 01 April 2016 to 31 March 2017 and the quarter ending 30 June 2017.

Per Accounting Policy 1.7, the municipality uses the most recent available financial statement of the associate in applying the equity method. The amounts reflected above are for the period 01 July 2016 - 30 June 2017

8. Operating leases

	2017	2016
Non-current assets	72 081 541	69 017 614
Current assets	2 638 016	2 929 996
	74 719 557	**71 947 610**

Municipality as lessor: Operating leases minimum future receivables	2017	2016
No later than one year	2 539 164	2 449 762
Later than one year no later than 5 years	9 757 691	10 068 605
Later than 5 years	449 579 917	451 262 058
	461 876 772	**463 780 425**

These leases are in respect of municipal properties that are leased to third parties. These leases are payable by lessees, either monthly or annually. Leases payable monthly and annually by lessees escalate at annual fixed rates that vary between 0% and 12.5% annually.

No contingent rent was recognised as revenue because rental increases are escalated at a fixed percentage. Increases are not based on indices or bases that result in a fluctuating interest rate.

The operating lease accrual arises from the differences between the actual rental and average rental at balance sheet date. During the 2016/17 financial year the net amount of R2 638 014 (2016: R2 929 997) has been accrued.

There are no sublease arrangements.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

9. Post - retirement medical obligation

The amounts recognised in the statement of financial position are as follows:

	2017	2016
Carrying value		
Balance at beginning of the year	505 115 904	503 422 921
Interest cost	46 816 201	44 656 361
Current service cost	23 369 129	23 246 493
Actual employer benefit payments	(20 347 264)	(16 966 927)
Actuarial gain recognised in the year	(27 655 749)	(49 242 944)
	527 298 221	**505 115 904**

	2017	2016
Non-current liabilities	(506 950 957)	(488 148 977)
Current liabilities	(20 347 264)	(16 966 927)
Net liability	**(527 298 221)**	**(505 115 904)**

	2017	2016
Net costs		
Interest cost	46 816 201	44 656 361
Current service cost	23 369 129	23 246 493
Actuarial gain recognised in the year	(27 655 749)	(49 242 944)
Net cost per Statement of Financial Performance	**42 529 581**	**18 659 910**

The best estimates for the employer benefit payments in the 2017/18 financial period is expected to be R19 736 903 (The actual employer benefit payments in the 2016/17 financial period was R20 347 264).

The municipality employees contribute to 5 accredited medical aid schemes, namely LA Health, Bonitas, Key Health, SAMWU Med and Hosmed. Pensioners continue on the option they belonged to on the day of their retirement.

The obligation in respect of the medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation was prepared in July 2017 by ARCH Actuarial Consulting using the Projected Unit Credit Method.

The municipality opted not to recognise the actuarial loss applying the "Corridor" method.

The employer's post-employment health care liability consists of a commitment to pay a portion of the pensioners' post-employment medical scheme contributions. The liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

9. Post - retirement medical obligation (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rate	9,29 %	9,43 %
Health care cost inflation rate	7,60 %	8,48 %
Net discount rate	1,57 %	0,88 %
Maximum Subsidy inflation rate	5,33 %	5,98 %
Net discount rate for capped subsidies	3,76 %	3,25 %
Average retirement age	63	63
Post-retirement mortality	SA 85-90	SA 85-90
Pre-retirement mortality	PA(90) - 1	PA(90) - 1
Proportion married at retirement	90%	90%
Continuation of membership at retirement	100%	100%
In-service members		
Number of in-service members	3214	2889
Average age	43,8	43,9
Average past service	11,1	11,4
Average present value of subsidy at retirement	R 1562	R 1616
Continuation members		
Number of principle members	540	548
Proportion with spouse dependants	41%	40%
Average age of members	71,0	70,6
Average employer contribution p.m.	R 2934	R 2652

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

9. Post - retirement medical obligation (continued)

Sensitivity results

The liability at the Valuation Date was recalculated to show the effect of:

- A 1% increase and decrease in the assumed rate of health care cost inflation;
- A 1% increase and decrease in the discount rate;
- A one-year age reduction in the assumed rates of post-retirement mortality;
- A one-year decrease in the assumed average retirement age; and
- A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement.

Assumption	Change	In-service	Continuation	Total	% change
Central assumptions		304.781	222.517	527.298	
Health care inflation	+1%	334.682	237.965	572.647	9%
	-1%	268.548	206.986	475.534	-10%
Discount rate	+1%	254.832	204.547	459.379	-13%
	-1%	368.624	243.501	612.125	16%
Post-retirement mortality	-1yr	313.853	231.108	544.961	3%
Average retirement age	-1yr	337.027	222.517	559.545	6%
Continuation of membership at retirement	-10%	274.303	222.517	496,820	-6%

Note : The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.

The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 9% higher than that shown.

The table below summarises the results of this analysis on the Current-service and Interest costs for the year ending 30 June 2017.

Assumption	Change	Current service cost	Interest cost	Total	% change
Central assumptions		23 369 100	46 816 200	70 185 300	
Health care inflation	+1%	26 131 200	50 958 900	77 090 100	10%
	-1%	20 021 200	41 987 400	62 008 600	-12%
Discount rate	1%	19 176 800	44 766 700	63 943 500	-9%
	-1%	28 821 200	48 970 200	77 791 400	11%
Post-retirement mortality	-1yr	24 142 900	48 504 800	72 647 700	4%
Average retirement age	-1yr	25 289 900	49 646 400	74 936 300	7%
Continuation of membership at retirement	-10%	21 032 200	44 062 500	65 094 700	-7%

These figures were derived at the last valuation and were also presented in that report.

The table below summarises the result of this analysis on the Current-service and Interest costs for the year ending 30 June 2018.

Assumption	Change	Current service cost	Interest cost	Total	% change
Central assumptions		24 732 500	48 091 200	72 823 700	
Health care inflation	+1%	27 379 800	52 378 800	79 758 600	10%
	-1%	21 431 500	43 364 600	64 796 100	-11%
Discount rate	+1%	20 448 900	46 367 600	66 816 500	-8%
	-1%	30 268 000	50 015 400	80 283 400	10%
Post-retirement mortality	-1yr	25 469 900	49 810 500	75 280 400	3%
Average retirement age	-1yr	26 907 300	51 165 400	78 072 700	7%
Continuation of membership at retirement	-10%	22 259 300	45 338 100	67 597 400	-7%

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

9. Post - retirement medical obligation (continued)

History of Liabilities, Assets and Experience Adjustments

The table below summarises the accrued liabilities and the plan assets for the current period and previous periods.

Liability History	30/06/2013	30/06/2014	30/06/2015	30/06/2016	30/06/2017
Present value of accrued liability (R'000)	368461	414075	503423	505116	527298
Fair vale of plan asset	0,000	0,000	0,000	0,000	0,000
Surplus / (Deficit)	**(368 461)**	**(414 075)**	**(503 423)**	**(505 116)**	**(527 298)**

The table below summarises the experience adjustments for the current period and the previous four periods. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occured.

Experience adjustments	Year ending 30/06/2013	Year ending 30/06/2014	Year ending 30/06/2015	Year ending 30/06/2016	Year ending 30/06/2017
Liabilities: (Gain) / Loss	18,314	7,896	37,093	(11,690)	26,366

10. Inventories

	2017	2016
Electricity store (Electrical maintenance parts)	7 433 742	7 997 872
Workshop store (Mechanical maintenance parts)	263 628	155 400
General stores (Chiselhurst, Mdantsane, KWT)	11 050 439	13 539 978
Water store (Water maintenance parts)	18 388 611	14 925 761
Fuel (Diesel, Petrol)	576 929	904 175
Unsold water (Treated water in pipelines & reservoirs)	4 400 412	4 102 584
	42 113 761	41 625 770
Inventories (write-downs)	(3 569 225)	(5 595 533)
	38 544 536	**36 030 237**

Carrying value of stock is disclosed at the lower of cost and net realisable value.

The inventories (write-downs) amount is in respect of obsolete stock and not due to a change in accounting policy.

Inventory write-downs is included under note 37 : General Expenses - Other expenses.

Inventory pledged as security

No inventory was pledged as security.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

11. Receivables from non-exchange transactions

Traffic fines	19 247 001	13 084 667
Other receivables (billing)	213 826 768	237 565 082
Other debtors	121 641 251	11 867 912
Accrued income	433 657 895	343 802 261
Property rates	577 335 303	422 709 232
Allowance for impairment property rates and other receivables billing	(474 392 515)	(334 021 137)
	891 315 703	**695 008 017**

Property rates age analysis		
Current (0-30 days)	73 552 633	60 602 832
31-60 days	24 583 006	20 709 231
61-90 days	17 129 903	14 262 118
91-120 days	16 266 037	13 245 330
121- 365 days	123 719 800	102 518 303
>365 days	322 083 924	211 371 420
	577 335 303	**422 709 234**

Other receivables (billing) age analysis		
Current (0-30 days)	10 355 497	18 159 786
31-60 days	3 865 562	5 698 151
61-90 days	3 102 951	4 077 178
91-120 days	2 890 146	4 008 600
121- 365 days	24 527 917	32 992 111
>365 days	169 084 695	172 629 255
	213 826 768	**237 565 081**

Traffic fines		
Opening Balance - Total Outstanding Fines (Based on prior 3 years)	**44 177 468**	**42 214 406**
Less: Outstanding Fines in respect of prior third year	(16 276 265)	(12 914 537)
Total Traffic Fines Issued BCMM	**58 434 689**	**23 371 688**
Traffic Fines withdrawn, untraceable and uncollectable	(1 768 808)	(2 233 205)
Traffic Fines Paid	(10 540 157)	(6 260 884)
Total Outstanding Fines	74 026 927	44 177 468
Impairment (Based on a probability collection factor of approx. 26 % - 2017 and 30% - 2016)	(54 779 926)	(31 092 801)
Traffic Fines Debtor	**19 247 001**	**13 084 667**

Trade and other receivables from non-exchange transactions pledged as security

No portion of accounts receivable was pledged as security for any financial liabilities.

No security is held for any accounts receivables.

These accounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

Credit quality of trade and other receivables from non-exchange transactions

The credit quality of trade and other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings.

Although credit quality can be assessed the municipality did not apply any methods to evaluate the credit quality.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

11. Receivables from non-exchange transactions (continued)

Trade and other receivables from non-exchange transactions impaired

As of 30 June 2017, trade and other receivables from non-exchange transactions of R 474 392 515 (2016: R 334 021 137) were impaired and provided for.

Amounts totaling R 37 820 814 (2016: R 5 451 786) were written off as uncollectable againts the debt impairment allowance account. This represents 0,0060% (2016: 0.009%) of the total operating income for the year.

Reconciliation of allowance for impairment of trade and other receivables from non-exchange transactions

Opening balance	(334 021 137)	(300 117 277)
Provision for impairment	(178 192 192)	(39 355 646)
Amounts written off as uncollectible	37 820 814	5 451 786
	(474 392 515)	**(334 021 137)**

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 35). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or credit enhancements.

12. VAT receivable

VAT receivable	100 950 585	96 847 762

VAT is payable on the receipt basis. VAT is only declared to SARS on receipt of payment from customers.

13. Receivables from exchange transactions

Gross balances		
Electricity	265 895 322	226 346 308
Water	481 203 693	479 803 245
Sewerage	183 662 979	181 313 338
Refuse	248 348 193	240 556 873
Housing rental	43 221	48 158
	1 179 153 408	**1 128 067 922**
Less: Allowance for impairment		
Electricity	(161 202 891)	(134 028 183)
Water	(291 693 489)	(332 473 256)
Sewerage	(111 348 342)	(129 536 090)
Refuse	(150 564 690)	(167 205 607)
Housing rental	(43 221)	(48 158)
	(714 852 633)	**(763 291 294)**
Net balance		
Electricity	104 692 431	92 318 125
Water	189 510 204	147 329 989
Sewerage	72 314 637	51 777 248
Refuse	97 783 503	73 351 266
	464 300 775	**364 776 628**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

13. Receivables from exchange transactions (continued)

Electricity		
Current (0 -30 days)	174 431 780	165 638 029
31 - 60 days	27 997 691	8 807 312
61 - 90 days	5 885 480	4 200 231
91 - 120 days	8 459 007	3 377 867
121 - 365 days	22 692 947	13 420 484
> 365 days	26 428 417	30 902 385
	265 895 322	**226 346 308**
Water		
Current (0 -30 days)	78 359 270	92 539 366
31 - 60 days	29 969 147	26 003 025
61 - 90 days	20 493 924	14 373 318
91 - 120 days	23 698 046	17 715 041
121 - 365 days	136 969 961	104 572 989
> 365 days	191 713 345	224 599 506
	481 203 693	**479 803 245**
Sewerage		
Current (0 -30 days)	21 131 461	24 098 893
31 - 60 days	8 260 954	7 330 052
61 - 90 days	5 295 866	4 626 285
91 - 120 days	4 740 653	4 228 421
121 - 365 days	36 976 826	31 894 354
> 365 days	107 257 219	109 135 333
	183 662 979	**181 313 338**
Refuse		
Current (0 -30 days)	16 587 058	21 553 765
31 - 60 days	8 025 465	7 873 356
61 - 90 days	6 229 020	5 812 927
91 - 120 days	5 751 420	5 485 077
121 - 365 days	49 101 044	40 731 880
> 365 days	162 654 186	159 099 868
	248 348 193	**240 556 873**
Housing rental		
> 365 days	43 221	48 158

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

13. Receivables from exchange transactions (continued)

Summary of debtors by customer classification: (This refers to the total debtor classification including exchange and non-exchange transactions as per billing system i.e. this includes rates and other billing receivables)

Consumers		
Current (0 -30 days)	146 978 647	161 381 229
31 - 60 days	59 196 777	52 829 536
61 - 90 days	42 743 613	35 444 704
91 - 120 days	42 409 250	37 591 535
121 - 365 days	297 206 084	250 388 673
> 365 days	767 689 771	772 210 785
	1 356 224 142	1 309 846 462
Less: Allowance for impairment	(913 489 081)	(866 735 321)
	442 735 061	**443 111 141**

Industrial/ commercial		
Current (0 -30 days)	201 317 712	189 082 926
31 - 60 days	39 436 041	18 411 756
61 - 90 days	14 401 510	11 620 925
91 - 120 days	18 365 710	10 089 983
121 - 365 days	93 169 129	72 911 579
> 365 days	199 664 028	132 173 925
	566 354 130	434 291 094
Less: Allowance for impairment	(275 756 067)	(230 577 111)
	290 598 063	**203 713 983**

National and provincial government		
Current (0 -30 days)	26 121 338	32 128 515
31 - 60 days	4 069 007	5 179 836
61 - 90 days	992 021	286 426
91 - 120 days	1 030 349	378 817
121 - 365 days	3 613 284	2 829 870
> 365 days	9 480 829	3 401 217
	45 306 828	**44 204 681**

Total		
Current (0 -30 days)	374 417 698	382 592 670
31 - 60 days	102 701 825	76 421 127
61 - 90 days	58 137 144	47 352 056
91 - 120 days	61 805 309	48 060 335
121 - 365 days	393 988 496	326 130 122
> 365 days	976 834 628	907 785 927
	1 967 885 100	1 788 342 237
Less: Allowance for impairment	(1 189 245 149)	(1 097 312 430)
	778 639 951	**691 029 807**

Less: Allowance for impairment		
Current (0 -30 days)	-	(548 656)
31 - 60 days	(76 648 978)	(72 575 224)
61 - 90 days	(43 389 226)	(47 923 955)
91 - 120 days	(46 126 870)	(38 762 314)
121 - 365 days	(294 043 610)	(261 433 461)
> 365 days	(729 036 465)	(676 068 820)
	(1 189 245 149)	**(1 097 312 430)**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

13. Receivables from exchange transactions (continued)

Consumer Debtors not past due nor impaired therefore no impairment allowance raised:

Total debtor past due but not impaired		
Current (0 -30 days)	778 639 952	691 029 807

Reconciliation of allowance for impairment		
Balance at end of year	1 189 245 148	1 097 312 430

Consumer debtors pledged as security

No portion of accounts receivable was pledged as security for any financial liabilities.

No security is held for any of the accounts receivable.

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. Although credit quality can be assessed the municipality did not apply any methods to evaluate the credit quality.

Consumer debtors impaired

As of 30 June 2017, consumer debtors of R 714 852 633 (2016: R (763 291 294)) were impaired and provided for.

Amounts totaling R 181 162 134 as of 30 June 2017 (2016: R 7 092 554) were written off as uncollectable against the debt impairment allowance account. This represents R 0,0289% (2016: R 0,0012%) of the total operating income for the year.

Reconciliation of allowance for impairment of consumer debtors

Opening balance	(763 291 294)	(599 628 080)
Allowance for impairment	(132 723 475)	(170 755 768)
Amounts written off as uncollectible	181 162 134	7 092 554
	(714 852 635)	**(763 291 294)**

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note 35). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

Refer to note 11 regarding impairment of non-exchange transactions.

In terms of the arrangements to repay rates and services debt as at 30 June 2017, 5419 (2016: 2521) debtors had active outstanding arrangements to the value of R49 238 983 (2016: R9 655 381). The repayment periods range from 1 month to a maximum of 24 months in terms of the Credit Control Policy.

14. Cash and cash equivalents

Cash and cash equivalents consist of:

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

14. Cash and cash equivalents (continued)

Cash on hand	79 607	74 657
Bank balances	22 844 594	222 661 475
Short-term deposits	1 665 510 900	2 151 164 102
	1 688 435 101	**2 373 900 234**

Allocation of external investments (short-term deposits)		
BCMET	498 587	517 356
Own funding (operating account commitments)	1 665 012 313	2 150 646 746
Total short- term deposits	**1 665 510 900**	**2 151 164 102**

Short-term deposits per institution		
ABSA (interest range 6.35% - 6.50% : 2016 5.25% - 6.35%)	414 964 957	522 580 804
Nedbank (interest range 6.50% : 2016 5.25% - 6.50%)	419 671 222	541 602 013
RMB (interest range 6.50% : 2016 5.25% - 6.25%)	416 475 663	544 776 577
Standard Bank (interest range 6.50% : 2016 5.25% - 6.50%)	254 375 775	382 711 280
Stanlib (interest range 7.51% - 7.69% : 2016 6.49% - 7.25%)	160 023 283	159 493 428
	1 665 510 900	**2 151 164 102**

Own funding includes the insurance and Compensation for Occupational Injuries and Diseases (COID) purposes.

No cash and cash equivalents (or portions thereof) was pledged as security for any financial liabilities.

No restrictions exist with regard to the use of cash.

No portion is past due or impaired.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

A cession by the Municipality in respect of the Department of Labour for COID amounts to R9 271 729 (2016: R 9 065 915).

The entity had the following bank accounts:

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2017	**30 June 2016**	**30 June 2015**	**30 June 2017**	**30 June 2016**	**30 June 2015**
ABSA BANK - Primary Account - 408-009-0281	243 343 217	330 845 799	263 731 647	16 463 219	218 683 291	57 302 876
ABSA BANK - Prism Account - 408-009-0574	-	-	-	3 991 136	2 766 391	4 734 549
ABSA BANK - Market Account - 408-009-0639	1 289 236	2 045 983	2 978 166	708 723	1 211 793	764 783
ABSA BANK - Unpaid Account - 408-009-0697	-	8 243	-	-	-	-
BCDA Account	1 681 516	-	-	1 681 516	-	-
Total	**246 313 969**	**332 900 025**	**266 709 813**	**22 844 594**	**222 661 475**	**62 802 208**

15. Revaluation reserve

Opening balance	4 613 940 840	4 622 680 892
Change during the year	2 358 963 669	(8 740 052)
	6 972 904 509	**4 613 940 840**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Government grants	60 738 312	28 839 338
Provincial grants	13 605 195	17 078 331
Other conditional grants	6 197 571	6 218 044
Agency - Land Affairs	170 289 196	159 130 682
	250 830 274	**211 266 395**

National Government	Unspent balance 2016	Current years receipt/ interest allocated	Transfer to revenue operating expenditure	Transfer revenue capital expenditure	Transfers / Prior period error	Unspent balance 2017
Fiancial Management Grant (FMG)	242	1 300 000	(1 254 066)	(45 404)	-	772
Integrated National Electrification Programme (INEP)	18 012 580	25 000 000	-	(11 141 767)	(6 400 001)	25 470 812
Electricity Demand: Side Management Grant (EDSM)	2 104	-	-	-	(2 104)	-
Urban Settlement Development Grant (USDG)	116 287	731 499 000	(77 407 676)	(645 075 841)	(9 131 575)	195
Expanded Public Works Programme (EPWP)	114 612	1 188 000	(1 186 535)	-	(115 939)	138
Intigrated City Development Grant (ICDG)	528 630	6 080 000	-	(5 963 350)	(528 630)	116 650
Municipal Human Settlement Capacity Grant (MHSCG)	5 944 968	-	-	-	(5 944 968)	-
Infrastructure Skills Development Grant (ISDG)	4 119 915	9 000 000	(6 759 728)	(30 832)	(4 316 296)	2 013 059
Public Transport Network Grant	-	35 289 000	(1 887 995)	-	(264 319)	33 136 686
Subtotal	28 839 338	809 356 000	(88 496 000)	(662 257 194)	(26 703 832)	60 738 312
	28 839 338	**809 356 000**	**(88 496 000)**	**(662 257 194)**	**(26 703 832)**	**60 738 312**

Provincial Government	Unspent balance 2016	Current years receipts/interest allocated	Transfer to revenue operating expenditure	Transfer to revenue capital expenditure	Transfers / Prior period errors	Unspent balance 2017
Trasitional Grant	113 769	-	-	-	-	113 769
King William's Town: Gants Government	2 053	-	-	-	-	2 053
European Commission	979 395	65 564	-	-	-	1 044 959
Gompo Survey (DVRI Hydroponics)	98 532	-	-	-	-	98 532
Human Settlement Development Grant (HSDG)	-	16 337 407	(105 906 182)	-	89 568 775	-
Compost Waste Management	60 640	-	-	-	-	60 640
Gompo & Mdantsane Art Centres (DVRI Arts Centre)	861	-	-	-	-	861
Environmental Project John Dube	138 528	-	-	-	-	138 528
Pilot Housing Project	268 793	-	-	-	-	268 793
Reeston Development - Land Affairs	85 662	54 369	-	-	-	140 031
Mdantsane Urban Renewal Project (Mount Ruth Node)	9 617 114	609 388	-	-	-	10 226 502
Ikhwezi Block 1 Development	175 288	-	-	-	-	175 288

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

16. Unspent conditional grants and receipts (continued)

Mdantsane Upgrade - MD Assessment Study	189 165	-	-	-	-	189 165
Needscamp Planning	937 253	-	-	-	-	937 253
Department of Sports, Recreation, Arts and Culture (DSRAC)	4 411 278	-	-	(4 202 457)	-	208 821
	17 078 331	**17 066 728**	**(105 906 182)**	**(4 202 457)**	**89 568 775**	**13 605 195**

Other conditional grants	Unspent balance 2016	Current years receipts/interest allocated	Transfer to revenue operating expenditure	Transfer to revenue capital expenditure	Transfers / Prior period error	Unspent balance 2017
Amatole District Municipality Funding (ADM)	1 673 270	-	-	-	-	1 673 270
Buffalo City Metro Transport (BCMET) Funding	487 499	-	-	-	-	487 499
VUNA Award	1 040 066	-	-	-	-	1 040 066
Friends of East London Zoo (Felzoo)	248 025	-	-	-	-	248 025
SALAIDA (Gavle)	1 833 428	146 143	(228 775)	-	-	1 750 796
Leiden	131 512	11 522	-	-	-	143 034
Umsobomvu Youth Fund	207 391	16 683	-	-	-	224 074
Glasgow Partnership	89 858	-	-	-	-	89 858
City of Oldenburg	506 995	33 954	-	-	-	540 949
	6 218 044	**208 302**	**(228 775)**	**-**	**-**	**6 197 571**

Land Affairs	Unspent Balance 2016	Current years receipts/interest allocated	Transfer to revenue operating expenditure	Transfer revenue capital expenditure	Transfers / Prior period error	Unspent balance 2017
Land Affairs - West Bank	85 013 391	6 191 478	-	-	-	91 204 869
Land Affairs - East Bank	74 117 290	4 967 037	-	-	-	79 084 327
	159 130 681	**11 158 515**	**-**	**-**	**-**	**170 289 196**

17. Borrowings

	2017	2016
At amortised cost		
Annuity loans	445 767 676	496 476 706
Non-current liabilities		
At amortised cost	398 126 111	445 767 675
Current liabilities		
At amortised cost	47 641 565	50 709 031

The municipality did not default on any of the borrowings in respect of capital or interest portions.

No terms attached to the borrowings were re-negotiated.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

18. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Adjustment	Total
Landfill Sites	185 085 477	(8 593 400)	176 492 077

Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Landfill Sites	176 667 653	8 417 824	185 085 477

	2017	2016
Non-current liabilities	10 114 962	10 222 692
Current liabilities	166 377 115	174 862 785
	176 492 077	**185 085 477**

With regards to the Provision for Landfill sites it is stated in the Department of Water Affairs and Forestry "Minimum Requirements for Waste Disposal by Landfill", Second Edition 1998, Chapter 2.3.4, that "All landfills except those closed prior to August 1990 when the permitting system came into effect, must be permitted before they can be considered closed. Closure will involve, inter alia, the application of final cover, topsoil, vegetating, drainage maintenance and leachate management." Rehabilitation costs in respect of geohydrological monitoring is anticipated to be a recurring cost for the next 30 years. The future value of the rehabilitation of landfill sites obligation was calculated by inflating the non-current rehabilitation cost to an estimated future cost which was then discounted to present value.

Assumptions used:
- Interest rate used is BCMM's borrowing rate at 10.13% (2016: 10.17%).

- The valuation for the landfill site provision in 2017 was done by Munitech (Pty) Ltd, a company which specialises in infrastructure maintenance and operations and municipal services, which includes solid waste collection and disposal. The company registration number is 1988/761/07 and the SAACE membership number is 439.

The expense relating to the provision is included under note 37: General Expenses - Other expenses.

The 2017 adjustment of R8 593 400 relates to a decrease in the rehabilitation of landfill sites provision.

19. Financial assets by category

2017		Financial assets at amortised cost	Total
Trade and other receivables from exchange transactions	13	464 300 775	464 300 775
Other receivables from non-exchange transactions	11	891 315 703	891 315 703
Cash and cash equivalents	14	1 688 435 101	1 688 435 101
VAT receivable	12	100 950 585	100 950 585
		3 145 002 164	**3 145 002 164**

2016		Financial assets at amortised cost	Total
Trade and other receivables from exchange transactions	13	364 776 628	364 776 628
Other receivables from non-exchange transactions	11	695 008 017	695 008 017
Cash and cash equivalents	14	2 373 900 234	2 373 900 234
VAT receivable	12	96 847 762	96 847 762
		3 530 532 641	**3 530 532 641**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

20. Financial liabilities by category

2017

		Financial liabilities at amortised cost	Measured at fair value	Total
Accrued leave pay	21	81 698 478	-	81 698 478
Payments received in advance	21	111 562 015	-	111 562 015
Borrowings: Other financial liabilities	17	445 767 676	-	445 767 676
Trade and other payables	21	672 751 395	-	672 751 395
Consumer deposits	22	-	57 321 210	57 321 210
Other deposits	21	-	6 444 246	6 444 246
Unspent conditional grants	16	250 830 274	-	250 830 274
		1 562 609 838	**63 765 456**	**1 626 375 294**

2016

		Financial liabilities at amortised cost	Measured at fair value	Total
Accrued leave pay	21	69 198 736	-	69 198 736
Payments received in advance	21	97 411 237	-	97 411 237
Borrowings: Other financial liabilities	17	496 476 706	-	496 476 706
Trade and other payables	21	759 376 132	-	759 376 132
Consumer deposits	22	-	53 708 070	53 708 070
Other deposits	21	-	5 958 645	5 958 645
Unspent conditional grants	16	211 266 395	-	211 266 395
		1 633 729 206	**59 666 715**	**1 693 395 921**

21. Payables from exchange transactions

		2017	2016
Trade payables		373 137 886	556 459 491
Payments received in advance		111 562 015	97 411 237
Retention monies		91 474 012	85 049 443
Market creditors		-	42 879
Accrued leave pay		81 698 478	69 198 736
Deposits received		6 444 246	5 958 645
Other creditors		208 139 497	266 486 455
		872 456 134	**1 080 606 886**
Prior period errors - Other creditors	**44**		
Balance previously reported		-	116 645 833
Adjusted		-	149 840 622
Restated		**-**	**266 486 455**
Prior period error - Retention			
Balance previously reported		-	86 270 808
Adjusted		-	(1 221 365)
		-	**85 049 443**

22. Consumer deposits

	2017	2016
Electricity	35 131 606	32 925 608
Water	22 189 604	20 782 462
	57 321 210	**53 708 070**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

22. Consumer deposits (continued)

The amounts reflected represent a cost value as Management believes that the cost value approximates the fair value.

The consumer deposits are reflected at nominal value as they are utilised as part of the settlement of final consumer accounts.

Guarantees held in lieu of Electricity and Water deposits amounted to R 19 034 117 (2016: R17 953 375).

23. Revenue

Service charges	2 856 882 199	2 736 900 918
Rental of facilities and equipment	19 062 021	16 583 409
Licences and permits	14 107 061	12 611 825
Total other revenue - refer note 25	207 291 263	262 224 403
Interest received - investment	198 236 537	187 367 781
Property rates	991 199 453	864 211 435
Government grants & subsidies	1 563 667 377	1 634 064 238
Fines	16 895 710	5 593 754
Fuel levy	410 031 000	370 461 000
	6 277 372 621	**6 090 018 763**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	2 856 882 199	2 736 900 918
Rental of facilities and equipment	19 062 021	16 583 409
Licences and permits	14 107 061	12 611 825
Total other revenue - refer note 25	207 291 263	262 224 403
Interest received - investment	198 236 537	187 367 781
	3 295 579 081	**3 215 688 336**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

23. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	991 199 453	864 211 435
Transfer revenue		
Government grants & subsidies	1 563 667 377	1 634 064 238
Fines	16 895 710	5 593 754
Fuel levy	410 031 000	370 461 000
	2 981 793 540	**2 874 330 427**

Traffic fines are made up as follows:		
Traffic fines movement	6 162 334	(846 087)
Revenue received	10 540 157	6 260 885
Revenue raised	**16 702 491**	**5 414 798**

Total fines outstanding at 30 June 2017 is R 74 026 927 (R 44 177 468 : 2016) after eliminating untraceable and collected fines. A probability factor of 26% (30% : 2016) collection of total outstanding fines was calculated which amounted to R 19 247 001 (R 13 084 667 : 2016). Refer to note 11.

The lifespan of traffic fines is as follows:

- Traffic offences in respect of which the admission of guilt amount is below R500: one year from date of issue of the warrant.
- Traffic offences in respect of which the admission of guilt amount is from R500 up to the maximum amount that may be determined by a peace officer in terms of section 56(1) of Act 51 of 1977: two years from the date of issue of the warrant.

The above arrangement also applies in traffic cases where a notice in terms of section 341 of Act 51 1977 is followed up by a summons setting admission of guilt up to the above maximum amount.

24. Service charges

Sale of electricity	1 672 935 623	1 681 550 488
Sale of water	538 405 417	425 275 744
Sewerage and sanitation charges	313 934 868	298 552 050
Refuse removal	306 754 411	287 400 358
Other service charges	24 851 880	44 122 278
	2 856 882 199	**2 736 900 918**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

25. Other revenue

Admission fees	2 871 384	3 121 970
Town planning and sub-division fees	1 980 820	1 611 805
Cemetery fees	9 367 681	8 162 091
Cold storage fees	877 034	642 560
Commission	23 860 300	20 487 565
Coupons and clip tickets	594 344	563 000
Dog tax and penalties	807 481	756 049
Fire brigade	42 016	82 866
Fire levy charges	68 664 537	68 230 867
Grazing fees	73 648	52 086
Hire charges	15 384	35 410
Insurance	2 566 739	1 994 618
Library	821	10 997
BCDA winding	836 003	-
Meter test fees	-	5 166
Photocopies	94 409	86 769
Plan approval fees	8 628 933	7 292 038
Private works	3 923 933	3 375 534
Sale of plants and animals	3 962	7 914
Sale of scrap waste	2 787 625	3 365 912
Service connections and reconnections	37 666 242	30 094 190
Street frontage and administration fees	313 755	331 454
Sundry income	12 839 496	85 834 744
Tender receipts	646 620	709 556
Towing fees	-	42 311
Vehicle registrations	27 828 096	25 326 931
	207 291 263	**262 224 403**

26. Interest Received

Interest revenue		
Call accounts with financial institutions	131 383 178	139 600 894
Bank	16 427 866	15 105 560
Interest charged on trade and other receivables	50 425 493	32 659 977
Interest on sporting body loans	-	1 350
	198 236 537	**187 367 781**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

27. Property rates

Rates received

Residential	476 916 502	444 914 887
Commercial	439 175 384	348 346 505
Municipal	-	11 719 945
Public Benefit Organisation	136 310	105 121
Educational	11 457 672	10 517 275
Agricultural	7 020 248	6 621 929
Public Service Infrastructure	1 237 058	1 503 327
Vacant land	96 056 606	74 221 687
Less: Income forgone	(40 800 327)	(33 739 241)
	991 199 453	**864 211 435**

Valuations

Residential	47 677 448 949	47 221 502 150
Commercial	17 750 853 747	17 292 255 490
Public Benefit Organisation	75 641 000	55 733 000
Municipal	9 396 000	9 396 000
Rural Communal Land	2 870 482 000	2 985 019 500
Educational	1 662 146 000	1 644 051 000
Agricultural	2 911 542 840	2 932 267 840
Public Service Infrastructure	598 612 000	665 190 100
Vacant Land	3 312 213 401	3 359 565 400
	76 868 335 937	**76 164 980 480**

The Buffalo City Metropolitan Municipality is required, in terms of the Municipal Property Rates Act, Act 6 of 2004 (MPRA) to undertake a General Valuation on land and buildings every 4 years and a supplementary valuation at least once a year. The second valuation in terms of MPRA was done in 2013 and the implementation date is 1 July 2014. The valuation date is 1 July 2013.

Rates are levied on a monthly basis (the due date for monthly accounts is the 15th of every month). Consumers must apply if they want to pay annually with the final date for payment for annual accounts being 30 September 2017. Interest at a standard rate (as amended from time to time), is levied on rates outstanding after 30 September, except where the owner is paying in installments.

Tarifffs levied: cents in the rand		
Agricultural	0,002431	0,00226
Business	0,024315	0,022597
Educational	0,006808	0,006327
Public Service Infrastructure	0,002431	0,002260
Residential	0,009726	0,009039
Vacant Land	0,029178	0,027117
Public Benefit Organisations	0,002431	0,002260
Municipal Non-rateable	0,000001	0,000001
Municipal Residential	0,009726	0,009039
Municipal Business	0,024315	0,022597
Municipal Educational	0,006808	0,006327
Rural Communal Land	0,000001	0,000001
Specialized	0,000001	0,000001

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

27. Property rates (continued)

Buffalo City Metropolitan Municipality grants rebates, in terms of the Municipality's rates policy to the following category of owners:

1) Newly developed commercial/Industrial properties with a value of R50 000 000 or above.

The rebate will be phased in over a period of 5 years, from the effective date of the valuation of the improvements in the municipality's valuation roll as follows

Year 1 - 50%
Year 2 - 40%
Year 3 - 30%
Year 4 - 20%
Year 5 - 10%, thereafter, full rates will be payable.

2) A rebate/discount of up to 75%, where the Municipality does not supply some or all of the following services:

	2017	2016
Constructed public roads	15%	15%
Water supply	22,5%	22%
Refuse removal service	7,50%	8%
Electricity supply	15%	15%
Sewerage service	15%	15%
	75%	**75%**

3) A rebate to senior citizens if they meet certain requirements.

Senior citizens from 60 years and above qualify for up to 100% depending on their income level allocated as follows:

Gross monthly income Rand	Rebate
0 - 3000	100%
3001 - 4500	85%
4501 - 6000	70%
6001 - 7500	55%
7501 - 9000	40%
9001 - 10500	25%

4) Public Benefit Organisations (ex Grant in Aid in lieu of rates recipients) are granted rebates on application.

5) Section 17 of the MPRA lists other impermissible rates, where a municipality may not levy a rate and the following were applied in the 2015/16 financial year:

Section 17(1)(a) - First 30% of the market value of public service infrastructure.
Section 17(1)(h) - R15 000 on market value of residential properties.
Section 17(1)(i) - Properties registered in the name of and used for public worship by religious communities, including an official residence registered in the name of that community which is occupied by an office bearer of that community.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

28. Grants and subsidies paid

Other subsidies		
Buffalo City Metropolitan Development Agency	15 890 999	764 351
Buffalo City Metropolitan Agency	-	4 215 918
Mayoral Social Responsibility	546 533	1 892 322
Sponsored Sporting Events	33 141 756	16 089 565
Social Welfare Grant (Poor relief)	359 034 297	217 368 077
Other Organisations	1 464 682	1 356 028
	410 078 267	**241 686 261**

During the 2016/17 financial year all applications for rates relief from Public Benefit Organisations are recorded as a rebate. In the 2015/16 financial year these applications were recorded as Grants in Lieu of rates.

29. Government grants and subsidies

Operating grants		
Government grants - operating projects	90 840 718	112 396 270
Other Government grants and subsidies	697 140 142	667 463 746
Government grants - housing projects	105 906 182	183 810 258
	893 887 042	**963 670 274**
Capital grants		
Government grant (capital: PPE)	669 780 335	670 393 964
	1 563 667 377	**1 634 064 238**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand		2017	2016

30. Employee related costs

	2017	2016
Basic emoluments	949 468 716	854 958 745
Medical aid contributions	74 863 227	60 380 792
UIF	8 950 567	7 891 461
Leave pay contributions (Leave pay provision charge)	38 424 043	34 634 556
Pension fund contributions	151 769 329	139 558 575
Overtime payments	125 172 924	132 481 396
Long-service awards	20 819 344	18 113 196
13th Cheques	69 714 878	61 328 649
Car allowance	25 258 710	21 935 095
Housing benefits and allowances	10 186 099	11 859 433
Group life	6 618 073	6 032 600
Other allowances	69 606 220	61 277 553
	1 550 852 130	**1 410 452 051**

	Note	2017	2016
Prior period errors - Basic emoluments	**44**		
Balance previously reported		-	1 530 271 289
Adjusted		-	(119 819 238)
Restated		**-**	**1 410 452 051**

Remuneration of City Manager

	2017	2016
	382 033	1 145 632
Travel Allowance	45 000	180 000
Allowance	181 288	358 572
UIF	478	1 785
Contributions to Medical and Pension Funds	61 386	223 398
	670 185	**1 909 387**

The position of the City Manager became vacant on 28 September 2016 and was filled on 01 June 2017. If the position was filled for the entire financial year the remuneration would have amounted to R 2 101 101. Acting allowance to the value of R 167 344 was paid in the 2016/17 financial year in respect of the vacant City Manager.

Remuneration of Chief Finance Officer

	2017	2016
Annual Remuneration	1 012 930	954 693
Travel Allowance	288 000	288 000
Allowance	122 893	100 529
UIF	1 785	1 785
Medical Aid	46 212	42 239
Pension Contribution	197 521	186 165
Group Life	18 875	17 745
	1 688 216	**1 591 156**

Remuneration of HOD: Executive Support Services

	2017	2016
Annual Remuneration	1 004 237	910 643
Housing subsidy	-	1 090
Travel allowance	242 765	222 114
Allowance	208 038	230 273
UIF	1 785	1 785
Madical Aid	23 201	21 092
Pension Contributions	180 763	180 255
Group Life	12 939	11 737
	1 673 728	**1 578 989**

Figures in Rand	2017	2016

30. Employee related costs (continued)

Remuneration of HOD: Human Settlements

The position was vacant for 2016/17.

If the position was filled for the entire financial year the remuneration would have amounted to R1 673 728. Acting allowance to the value of R 68 078 was paid in the 2016/17 financial year in respect of the vacant HOD: Human Settlements position.

Remuneration of HOD: Corporate Services

Annual Remuneration	1 004 237	910 643
Travel allowance	240 000	320 000
Allowance	196 621	125 924
UIF	1 785	1 785
Medical Aid	35 259	25 146
Pension Contributions	195 826	195 491
	1 673 728	**1 578 989**

Remuneration HOD: Health and Public Safety

The position was vacant for 2016/17.

If the position was filled for the entire financial year the remuneration would have amounted to R1 673 728. Acting allowance to the value of R 39 726 was paid in the 2016/17 financial year in respect of the vacant HOD: Health and Public Safety position.

Remuneration of HOD: Infrastructure Services

Annual Remuneration	1 004 237	947 393
Travel Allowance	168 000	168 000
Allowance	269 876	246 555
UIF	1 785	1 785
Medical Aid	21 065	18 320
Pension Contributions	195 826	184 742
Group Life	12 939	12 194
	1 673 728	**1 578 989**

Remuneration of HOD: Development and Spatial Planning

Annual Remuneration	1 004 237	947 393
Travel Allowance	192 000	192 000
Allowance	243 533	215 913
UIF	1 785	1 785
Medical Aid	27 720	29 027
Pension Contributions	195 826	184 742
Group Life	8 627	8 130
	1 673 728	**1 578 990**

Remuneration of HOD: Municipal Services

The position was vacant for 2016/17.

If the position was filled for the entire financial year the remuneration would have amounted to R1 673 728. Acting allowance to the value of R183 204 was paid in the 2016/17 financial year in respect of the vacant HOD: Municipal Services position.

Remuneration of HOD: Economic Development & Agencies

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

30. Employee related costs (continued)

This is a new position.

Guarantees by the municipality in respect of commercial bank housing loans for officials amount to R 68 400 (2016: R74 400).

31. Remuneration of councillors

Executive Mayor	1 287 603	745 445
Deputy Mayor	595 007	602 036
Mayoral Committee Members	4 542 575	4 993 958
Speaker	595 007	602 036
Councillors salaries	24 727 347	23 899 021
Councillors' pension contribution	3 400 255	3 306 271
Councillors housing subsidy	2 801 464	2 846 951
Councillors medical Aid	1 717 336	1 783 219
Travel allowance	15 356 710	14 910 068
	55 023 304	**53 689 005**

In-kind benefits

The Executive Mayor, Deputy Mayor, Speaker, Chief Whip and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council. Cost of secretarial support amounts to R 14 670 995 (2016: R 12 296 778).

The House Keeper's cost to Council amounts to R19 414 (2016: R41 477).

The Executive Mayor, Deputy Mayor and Speaker each have the use of a Council owned vehicle for official duties. Repairs to the vehicles amounted to R225 144 (2016: R23 603). An amount of R1 030 361 (2016: R2 170 105) was incurred for hired vehicles.

The Executive Mayor, Deputy Mayor and Speaker each have full-time bodyguards. Cost of 14 bodyguards amounts to R11 258 124 (2016: 9 bodyguards R4 459 483).

32. Repairs and maintenance

Repairs and maintenance		382 954 054	344 238 201
Prior period error - Repairs and maintenance	**44**		
Balance previously reported		-	350 105 699
Adjusted		-	(5 867 498)
Restated		**-**	**344 238 201**
The above repairs and maintenance are made up of the below categories			
Infrastructure		336 203 850	287 745 846
Community Assets		17 753 418	19 195 296
Other Assets		28 996 785	37 297 059
		382 954 053	**344 238 201**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand		2017	2016

33. Depreciation and amortisation

	2017	2016
Property, plant and equipment	797 632 896	858 268 490
Intangible assets - amortisation (Refer note 5)	9 086 765	9 167 054
	806 719 661	**867 435 544**

		2017	2016
Prior period errors - PPE	**44**		
Balance previously reported		-	789 808 551
Adjusted		-	77 626 993
Restated		**-**	**867 435 544**

34. Finance costs

	2017	2016
Non-current borrowings	49 359 417	60 947 417

	2017	2016
Prior period error - Finance costs		
Balance previously reported	-	54 873 363
Adjusted	-	6 074 054
	-	**60 947 417**

35. Debt impairment

	2017	2016
Contributions to debt impairment allowance account	310 915 665	210 111 414

36. Bulk purchases

	2017	2016
Electricity	1 360 783 502	1 241 905 006
Water	197 730 305	185 412 747
	1 558 513 807	**1 427 317 753**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

37. General expenses

Advertising	16 570 592	3 777 131
Assessment rates & municipal charges	20 345 564	96 012 149
Auditors remuneration	13 082 942	12 686 570
Bank charges	9 013 984	5 039 320
Chemicals	13 238 578	13 214 476
Cleaning	391 884	2 470 735
Commission paid	22 588 230	18 824 508
Conferences and seminars	7 581 438	5 226 046
Consulting and professional fees	26 738 387	26 514 886
Consumables	11 776 349	7 449 388
Disconnections	11 638 639	9 915 533
Entertainment	5 575 416	3 594 803
Essential user cost	23 661 596	20 203 145
Lease rentals on operating lease	116 505 005	62 527 688
Remuneration to Ward Committees	673 479	5 034 000
Fuel and oil	35 714 534	35 011 436
Hire (labour and plant)	291 825	422 597
IT expenses	31 926 180	25 936 296
Insurance	19 554 327	19 648 844
Levies	15 931 036	17 292 620
Magazines, books and periodicals	1 158 853	396 428
Marketing	527 105	4 974 837
Motor vehicle expenses	4 056 727	3 574 619
Other expenses	64 040 609	50 586 589
Post-retirement medical obligation net cost	42 529 581	18 659 910
Postage and courier	6 476 064	5 357 777
Printing and stationery	9 640 875	5 750 500
Projects	255 202 293	413 687 463
Promotions	381 268	148 072
License fees	3 509 226	3 794 204
Security (Guarding of municipal property)	374 677	846 061
Special events	17 023 547	8 200 517
Subscriptions and membership fees	12 840 602	12 251 725
Telecommunication costs (telephones, faxes and cell phones)	21 826 107	19 367 592
Title deed search fees	77 121	41 960
Training	20 006 919	13 218 280
Travel - local	7 605 654	10 123 044
Travel - overseas	1 982 201	1 619 960
Uniforms	7 940 623	7 316 484
	880 000 037	**970 718 192**

38. Fair value adjustments and discounting of receivables and payables

Other financial assets		
• Other financial assets (Designated as at FV through P&L)	4 968 023	12 978 070

In terms of GRAP 104 Paragraph AG 87 the initial period granted for short-term payables and receivables is 30 days. As the normal municipal receivables and payables terms are within 30 days and is consistent with established practice and legislation, no discounting needs to be performed.

The fair value adjustment is associated with the change in market value of investment properties owned by the municipality. The market values of the properties are determined by an independent valuer as recorded in note 3 in the Annual Financial Statements.

39. Auditor General remuneration

Audit fees	13 082 942	12 686 570

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand		2017	2016

40. Cash (utilised by)/ generated from operations

Surplus		261 983 408	370 477 574
Non cash movements:			
Depreciation and amortisation	33	806 719 661	867 435 544
Loss / (gain) on sale of assets and liabilities	4	31 188 569	176 306 785
Share of profit of associate	7	(15 247 675)	(30 383 365)
Fair value adjustment on Investment property revalued	38	(4 968 023)	(12 978 070)
Debt impairment	35	310 915 665	210 111 414
Movements in operating leases	8	(2 771 947)	(2 929 997)
Movements in post retirement medical aid benefit obligation	9	22 182 317	1 692 983
Movements in provisions relating to landfill sites	18	(8 593 400)	8 417 824
Non-cash adjustments on PPE (Transfers)		(4 035 529 357)	14 056 235
Difference in revaluation recognised in PPE and SoCNA		4 033 049 466	(57 052 039)
Difference in depreciation and impairment reversal on PPE		(13 457 541)	(69 583 588)
Difference in revaluation recognised in Intangible assets and SoCNA		(70 841 532)	-
Revaluation recognized in SoCNA	15	-	(8 740 052)
Opening balance adjustment on PPE 2016		-	195 615 976
Changes in working capital:			
Inventories	10	(2 514 299)	8 848 174
Movement in Receivables from exchange transactions	13	(410 439 812)	(254 235 806)
Other receivables from non-exchange transactions	11	(196 307 686)	(322 984 614)
Payables from exchange transactions	21	(208 150 752)	476 725 730
Movement in VAT receivables	12	(4 102 823)	(13 829 436)
Unspent conditional grants and receipts	16	39 563 879	19 727 167
		532 678 118	**1 576 698 439**

41. Commitments

Authorised capital expenditure

Already contracted for but not provided for - Property, plant and equipment		
• Community (including housing)	423 960 160	341 865 869
• Infrastructure	890 161 795	775 851 410
• Other	17 897 723	23 022 899
	1 332 019 678	**1 140 740 178**

This committed expenditure relates to Infrastructure, Community and other Property, Plant and Equipment.
The above amounts exclude VAT.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	3 568 429	4 509 118
- in second to fifth year inclusive	3 014 541	5 825 236
	6 582 970	**10 334 354**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of five years and rental increases escalates between 0% and 12% annually.

No contingent rent is payable.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

42. Contingent liabilities

Litigation issues		
Claims have been instituted against Council due to alleged assault and defarmation.Legal advice has been sought and Council will defend the claim	500 000	300 000
Claims have been instituted against Council due to alleged outstanding payments,contractual disputes and various damage claims.	5 620 082	5 518 503
A claim has been instituted against Council by Dalwick Trading in respect of alleged breach of contract. The contractor presented BCMM with a letter of appointment regarding a 2010 Legacy Project but there is no record within BCMM of the contractor tendering or being awarded the contract (Date of incident August 2008 and summons received by BCMM November 2010).	1 563 415	1 563 415
A claim has been instituted against Council by M.Sithole for damages suffered as a result of his appointment as Municipal Manager being rejected by Council (Date of incident August 2009 and summons received by BCMM June 2011).	1 382 118	1 382 118
A claim has been instituted against Council by RJW Ikusasa JV due to cancellation of a contract to lay a bulk sewer pipe due to non performance (Summons received by BCMM November 2007).	9 780 185	9 780 185
A claim has been instituted against Council by Tshiki & Sons Inc. seeking a court order to compel Council to pay fees allegedly due in respect of Conveyancing work done on Council's behalf (Date of incident September 2011 and letter of demand received by BCMM June 2014).	11 993 894	11 993 894
A claim has been instituted against Council by Nurcha Development & Tusk Construction for alleged breach of contract (Cession agreement signed by the Contractor New Boss CC) (Date of incident June 2011 and summons received by BCMM January 2012).	1 921 831	7 261 174
A claim has been instituted against Council by Mkwanazi Construction (Pty) Ltd claiming for damages arising from alleged delays and disruptions in the construction project (Date of incident October 2011 and summons received by BCMM April 2012).	36 861 290	36 861 290
A claim has been instituted against Council by Faye Heuer claiming for damages against Council due to an accident allegedly caused by potholes (Date of incident February 2009 and summons received by BCMM February 2012). (Resolved)	-	2 209 820
Contracts awarded during Dr.Zitha's tenure as Acting Municipal Manager were investigated by forensic auditors. The forensic investigation has been completed and a final report has been submitted to Council. Council is to decide on the outcome of the report.	20 474 866	20 474 866
A claim has been instituted against Council by Reigerton Farms for Gonubie Main Road (Letter of demand received April 2013).	15 812 736	15 812 736
A claim has been instituted against Council by Ranamane Mokalane Incorporated for professional fees owed for services rendered by them (Date of incident April and May 2010 and summons received March 2013).	2 724 871	2 724 871
A claim has been instituted against Council by Willards Travel Services (PTY) Ltd for fees owed for services rendered by them (Date of incident November 2013 to January 2014 and letter of demand received February 2014). (Resolved)	-	1 324 451
A claim has been instituted against Council by Ursa Give JV for work allegedly completed by them for BCMM (Date of incident March 2014 and summons received December 2014).	1 171 701	5 222 154
A claim has been instituted against Council by Primelands Properties for cancellation of a tender awarded to them by BCMM (Letter of demand received July 2014). The amount disclosed in the 2014/2015 financial year was as per the letter of Demand received by BCMM which was R14,400,000. When Primelands issued the Summons in the 2015/2016 financial year the amount was 17,465,502 and the contingent liability has been amended to reflect the amount on the Summons.	17 465 502	17 465 502
A claim has been instituted against Council by THM Engineers & Others for payment of additional fees relating to a contract to construct toilets (Date of incident May 2014 and summons received October 2014).	1 157 925	1 157 925
A claim has been instituted against Council by Adalwa Trading cc for unlawful termination of contract and non-payment for services rendered (Date of incident June 2015 and summons received September 2015).	1 452 000	1 452 000

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016
42. Contingent liabilities (continued)		
A claim has been instituted against Council by Asla Construction (Pty) Ltd in respect of alleged breach of contract and interest accruing from non-payment (Date of incident September 2015 to February 2016 and summons received May 2016). Resolved	-	23 836 859
A claim has been instituted against Council by Asla Construction (Pty) Ltd in respect of Provisional Sentence for Certificates issued for services rendered in terms of an alleged contract between BCMM and them (Date of incident June to August 2015 and summons received October 2015). Resolved	-	7 026 973
Total Contingent Liabilities in respect of Litigation Issues	**129 882 416**	**173 368 736**
Labour issues		
Directors bonuses. The liability for the 2015/2016 financial year was calculated from 2012/2013 to 2015/2016 whereas the liability for the 2016/2017 financial year was calculated from 2012/2013 to 2016/2017.	6 160 574	4 892 489
Labour disputes which have resulted in possible claims by employees.	6 468 837	3 618 180
Unfair Labour Practice Dispute has been instituted against Council by C. Krause in relation to occupational detriment dispute and termination of fixed contract.	1 690 836	-
Unfair Labour Practice Dispute has been Instituted against Council by E. Mnqonywa and 26 Others in relation to Scarce Skills Allowance back dated to 01 March 2012	12 000 000	-
Total Contingent Liabilities in respect of Labour Issues	**26 320 247**	**8 510 669**
Insurance issues		
Claims have been instituted against Council due to alleged assault, unlawful/wrongful arrest, defamation and various personal injury claims. Legal advice has been sought and Council will defend claims where so advised.	6 699 257	7 083 887
Claims have been instituted against Council due to various damage claims.	3 516 245	2 722 830
A claim has been instituted against Council by T. Bejia and D.H.E. Bejia in respect of personal injury and vehicle damages caused by a pothole (Date of incident July 2012 and claim received by BCMM December 2012).	7 001 517	7 001 517
A claim has been instituted against Council by S. Tsolekile in respect of personal injury caused by tripping in an open manhole (Date of incident January 2013 and Summons received by BCMM November 2013).	4 000 000	4 000 000
A claim has been instituted against Council by B.B. Sparks in respect of personal injury and vehicle damages caused by smoke from fire (Date of incident November 2013 and claim received by BCMM February 2014). (Resolved).	-	1 950 000
A claim has been instituted against Council by A.N. Ndzamela in respect of financial loss caused by the incorrect approval of a plan (Date of incident October 2007 and claim received by BCMM August 2014).	1 500 000	1 500 000
A claim has been instituted against Council by N.E. Sokoyi in respect of the death of her son caused by an electrical cable (Date of incident November 2012 and claim received by BCMM November 2015).	1 400 000	1 400 000
A claim has been instituted against Council by N. Ndamase in respect of injury to her son caused by a collapsed floodlight mast (Date of incident October 2015 and claim received by BCMM May 2016).	1 100 000	1 100 000
A claim has been instituted against Council by H. Dirker in respect of injury caused by a water slide (Date of incident December 2013 and claim received by BCMM March 2016).	4 000 000	4 000 000
A claim has been instituted against Council by M. Noland, E. Johannes, C.A. Fraser, G. Peacock, R. Windvogel, A. Gomo and R. Hurling in respect of an alleged shooting incident (Date of incident May 2016 and claim received May 2016).	1 400 000	1 400 000
A claim has been instituted against Council by D. Mangaliso in respect of injury to her son caused by falling into a sewerage water pit. (Date of incident June 2016 and claim received by BCMM August 2016).	900 000	1 200 000
A claim has been instituted against Council by R.J. Janse van Rensburg in respect of injury caused by falling into an open drain. (Date of incident May 2014 and summons received by BCMM August 2016).	-	2 535 000

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016
42. Contingent liabilities (continued)		
A claim has been instituted against Council in the 2016 financial year by N.F. Magade in respect of the death of her child caused by an electrical cable (Date of incident June 2016 and claim received by BCMM September 2016).	1 000 000	-
A claim has been instituted against Council in the 2016 financial year by Z. Maholwana in respect of injury caused by falling into an open manhole (Date of incident November 2016 and claim received by BCMM January 2017).	1 600 000	-
A claim has been instituted against Council in the 2015 financial year by S. Sithole in respect of injury caused by injury from a sliding gate that fell on her (Date of incident March 2015 and Summons received by BCMM September 2016).	3 800 000	-
Total Contingent Liabilities in respect of Insurance issues	**37 917 019**	**35 893 234**
Total Contingent Liabilities:	**194 119 682**	**217 772 639**

Contingent assets

A counterclaim of R 27 140 802 (2016: R27 140 802) has been instituted by Council against Dormell Properties trading as Alliance Communications for repayment of amounts paid to them relating to the forensic investigation on Dr Zitha's appointments.

BCMM purchased property in the amount of R762 440 (2016: R762 440) from Roger Rodney Smith who has now instituted a claim against Council for the sale to be reversed. If successful, BCMM will be refunded the amount.

Summons in the amount of R492 050 (2016: R492 050) have been issued to parties to recover costs incurred relating to a forensic investigation undertaken in respect of services rendered for waste sites.

A claim of approximately R515 946 (2016: R515 946) has been instituted by Council against ASBF Marking, Imigudu Joint Venture and Others due to contractor disputes whereby the contractor defaulted from their obligations in terms of the contract.

A claim in reconvention of R7 327 965 (2016: R7 327 965) has been instituted by Council against Phumelela Africa Professional Engineers t/a Phumaf Consulting Engineers (Pty) Ltd for repayment of amounts paid to them as the procurement processes were not followed.
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A claim of R48 687 (2016: R 48 687) has been instituted by Council against Jikwana for payment of taxed costs in favour of BCMM.

A claim of R33 714 (2016: R33 714) has been instituted by Council against Erf 14719 Zilmar Court Yard for payment of taxed bill in favour of BCMM.
A claim of R29 635 (2016: R0) against E. & J. M.Randall for payment of taxed bill of costs in favour of BCMM

A claim of R266 872 (2016: R0) against Rennies Travel (Pty) Ltd for the overpayment of services rendered to BCMM by Rennies Travel.

A claim of R22 049 (2016:0) against Johannes Jacobus Josia De Goede and Another for payment of taxed bill of costs in favour in favour of BCMM

A claim of R90 000 (2016: R0) against Diko for payment of taxed bill of costs in favour of BCMM.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

43. Related parties

Controlled entities	Buffalo City Metropolitan Development Agency SOC Ltd
Associate	Refer to note 7

Buffalo City Metropolitan Development Agency (BCMDA) (a SOC Ltd company registration no 2016/168330/30)

The BCMDA was incorporated on 20 April 2016 as a Municipal Entity of BCMM. BCMDA is 100% controlled by BCMM.

BCMM relationship with BCMDA: Subsidiary - Buffalo City Metropolitan Development Agency (SOC) Ltd.

The municipality issued grants of R18 115 739 (VAT inclusive) to BCMDA during the current financial year (2016: R764 351 - VAT inclusive).

BCMDA has paid no consumer accounts during the current financial year.

There are no share based payments in respect of BCMDA.

There are no post-employment benefits for key personnel in respect of BCMDA.

Buffalo City Development Agency (BCDA) (a Section 21 company registration no 2004/016829/08):

The BCDA was incorporated on 18 June 2004 as a Municipal Entity of BCMM. BCDA is 100% controlled by BCMM. BCMM Council resolved to report all Agency related pre-incorporation financial transactions for the first time at 30 June 2005.

BCMM relationship with BCDA: Subsidiary - Buffalo City Development Agency (SOC) Ltd.

The municipality issued grants of R0 (VAT inclusive) to BCDA during the current financial year (2016: R4 108 909 - VAT inclusive).

BCDA has paid no consumer accounts during the current and 2016 financial years.

There are no share based payments in respect of BCDA.

There are no post-employment benefits for key personnel in respect of BCDA.

BCMM paid an amount of R317 628 (2016: R 944 938) VAT inclusive in respect of grass mowing, municipal services and office rental for the 2016/17 financial year to the East London IDZ.

All Councillors and Employees have disclosed their interest in related parties and no one has the ability to control or exercise significant influence over Council in making financial and operating decisions.

44. Prior period errors

During the year the following adjustments were made to transactions whereby amounts were erroneously stated in previous financial periods:

The correction of the error(s) results in adjustments as follows:

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand

44. Prior period errors (continued)

Accumulated surplus prior to 2016			
Adjustment to PPE(roads, sanitation and community buildings)	4	-	405 776 408
Adjustment to salaries	30	-	(729 109)
Adjustment to salaries	30	-	(83 585 806)
Adjustment to PPE (work in progress)	4	-	(7 578 117)
Adjustment to salaries	30	-	2 755 968
Adjustment to PPE (prior period error)	4	-	(792 060)
Adjustment to trade payables (retention)	21	-	72 371
Adjustment to PPE other properties	4	-	(7 929 470)
Total changes to accumulated surplus prior to 2016		**-**	**307 990 185**
Statement of Financial Position 2016			
Adjustment to trade payables	21	-	729 109
Adjustment to trade payables	21	-	83 585 806
Adjustment to trade payables	21	-	(2 755 968)
Adjustment to PPE (prior period error)	4	-	792 060
Adjustment to PPE (retention)	21	-	(72 371)
Adjustment to PPE other properties	4	-	7 929 470
Adjustment to PPE(roads, sanitation and community buildings)	4	-	(405 776 408)
Adjustment to PPE (roads)	4	-	77 626 993
Adjustment to PPE (roads)	4	-	177 556 213
Adjustment to interest	34	-	6 074 054
Adjustment to salaries	30	-	60 180 762
Adjustment to PPE (roads)	4	-	(5 867 498)
Adjustment to trade payables (retention)	21	-	(1 148 994)
Adjustment to PPE (work in progress)	4	-	7 578 117
Total changes to the Statement of Financial Position 2016		**-**	**6 431 345**
Statement of Financial Performance 2016			
Surplus for the year as per audited financial statements		-	**684 899 105**
Depreciation	32	-	(77 626 993)
Gains and loss	33	-	(177 556 213)
Finance cost	25	-	(6 074 054)
Salaries, overtime and allowances paid in 2016 iro 2014	30	-	(60 180 762)
Repairs and maintenance	37	-	5 867 498
Conditional grants recognised as revenue - other subsidies 2015	29	-	1 148 994
Net effect on surplus for 2016		**-**	**(314 421 530)**
Restated surplus for 2016		**-**	**370 477 575**

45. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. Risk management is carried out under policies approved by the accounting officer. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

The municipality's strong financial position will allow additional access to long-term facilities as and when required.

45. Risk management (continued)

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

The risk of a decrease in interest rate will place additional pressure to funding operations as a result of less income being realised from interest received.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables - normal credit terms	10,00 %	1 260 259 377	-	-	-	-
Cash in current banking institutions	6,50 %	22 924 201	-	-	-	-
Call investment deposits	6,63 %	1 665 510 900	-	-	-	-
Trade and other payables - extended credit terms	9,00 %	759 376 132	-	-	-	-
Long term borrowings	10,13 %	47 641 564	100 213 587	158 187 143	212 582 748	185 543 363

These amounts best represent maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements.

Sensitivity Analysis of Market Risk

Effect of a 1% change in the interest rate	Current interest rate	Value at 30 June 2017	Discounted value at current rate	Discounted value at current rate (-1%)	Discounted value at current rate (+1%)
Trade and other receivables	10,00 %	1 260 259 377	1 145 690 343	1 156 201 263	1 135 368 808
Trade and other payables	9,00 %	759 376 132	696 675 350	703 126 048	690 341 938
Cash in current banking institutions	6,50 %	22 454 478	21 084 017	21 283 865	20 887 887
Call investment deposits	6,63 %	1 665 510 900	1 561 953 390	1 576 740 415	1 547 441 141

The sensitivity analysis was based on the assumption that a 1% increase or decrease in the interest rate could occur. The method used to prepare the sensitivity analysis was based on the discounted value of the respective cash flow for 1 year using the respective current interest rate in order to determine the effect of applicable market risk of a 1% increase or decrease in the interest rate.

Credit risk

Credit risk consists mainly of cash deposits (refer note 14) and trade debtors (refer notes 11 & 13). The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Figures in Rand	2017	2016

45. Risk management (continued)

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide benefits for stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings, cash and cash equivalents and equity.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The municipality is in an enviable position of having access to additional long term facilities in order to invest in the replacement of infrastructure assets.

46. Going concern

The unaudited separate annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

47. Events after the reporting date

At the time of preparing and submitting the Annual Financial Statements there were no subsequent events to disclose.

48. Unauthorised expenditure

Opening balance	21 985 787	432 067 162
Expenditure authorised in terms of section 32 of the MFMA	(21 985 787)	(432 067 162)
Unauthorised expenditure for the year	95 876 117	21 985 787
Closing balance	**95 876 117**	**21 985 787**

The unauthorised expenditure can be attributed to difficulty of achieving budget accuracy for each expenditure type due to varying operational requirements.

The unauthorised expenditure comprises the following:
- Employee related costs of R38.42 million, this is as a result of the salary standardisation paid to employees as approved by the Council.
- Depreciation and asset impairment of R12.79 million
- Finance charges of R12.05 million, the budgeted figures are based on the capital budget, which is still budgeted for on a globular basis and not componentised per asset category. This results in budget figures differing from the actuals due to differing useful lives of the components of the assets.
- Transfers and grants of R32.25 million due to an increase in the indigent register
- Other expenditure of R14.21 million as a result of post retirement obligations calculation that came above the budgeted amount.

Loss on disposal of Proprty Plant and Equipment of R13.9 million which was not budgeted as the City did not plan to have loss on disposal of assets.

49. Fruitless and wasteful expenditure

Opening balance	5 213 926	5 142 644
Acts of negligence	83 785	71 218
Interest charged on overdue accounts due to late payment.	7 119	64
Closing balance	**5 304 830**	**5 213 926**

Staff members involved in acts of negligence resulted in the municipality incurring losses totalling R83 785 (2016: R71 282).

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

49. Fruitless and wasteful expenditure (continued)

BCMM has established a Municipal Public Accounts Committee (MPAC) which is constituted by Council to investigate all irregular, fruitless and wasteful expenditure. The MPAC recommends to Council the write off and future actions to be taken in accordance with the provisions in terms of Section 32 of the MFMA.

50. Irregular expenditure

	2017	2016
Opening balance	1 682 974 317	1 610 175 763
Add: Irregular Expenditure - current year	356 095 352	413 257 707
Less: Amounts condoned	-	(340 459 153)
Closing balance	**2 039 069 669**	**1 682 974 317**

Analysis of expenditure awaiting condonation per age classification

	2017	2016
Amounts written-off approved by Council	-	(340 459 153)
Current year	356 095 352	413 257 707
Prior years	1 682 974 317	1 610 175 763
	2 039 069 669	**1 682 974 317**

Details of irregular expenditure

	2017	2016
Procurement made outside SCM regulations	71 454 209	3 387 884
BCC contracts	123 725 577	66 634 096
Annual contracts	24 512 187	40 760 577
Irregular expenditure made on 3 quotation system	-	2 287 902
Suppliers in service of state	116 000	3 893 975
Deviations considered to be irregular	136 287 379	296 293 273
	356 095 352	**413 257 707**

The restated 2016 amounts include an amount of R 296 293 273 in respect of deviations considered to be irregular.

The Municipal Public Accounts Commitee is in the process of investigating irregular expenditure and through the work being performed recommended that the amount of irregular expenditure be restated by R 118 337 631 and R 342 230 302 for 2015/16 and 2014/15 financial years respectively. This determination was made considering additional documentation submitted supporting the regulatory of the procurement. Council has supported the restatement of the irregular expenditure.

51. In-kind donations and assistance

	2017	2016
FELZOO donated assistance to BCMM	107 441	4 000
FELA donated assistance to BCMM	9 700	-
Friends of the Library donated assistance to BCMM	44 562	-
National Council of Provinces donated assistance to BCMM	20 000	-
Van Schaik Booksellers donated assistance to BCMM	271 264	-
City of Glasgow donated assistance to BCMM	25 000	-
	477 967	**4 000**

52. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2017	2016
Current year contribution	12 300 000	11 800 000
Amount paid - current year	(12 300 000)	(11 800 000)
	-	**-**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

52. Additional disclosure in terms of Municipal Finance Management Act (continued)

Contributions to SA Cities Network

Current year contribution	1 815 000	1 650 000
Amount paid - current year	(1 815 000)	(1 650 000)
	-	-

Audit fees

Current year subscription / fee	13 082 942	12 686 570
Amount paid - current year	(13 082 942)	(12 686 570)
	-	-

PAYE, UIF and Skills Development Levy

Current year contribution	279 945 920	209 889 608
Amount paid - current year	(279 945 920)	(209 889 608)
	-	-

Amounts in respect of June 2017 were paid by 07 July 2017 as per legislation, therefore there were no outstanding amounts for the financial year 2016/17.

Pension and Medical Aid Deductions

Current year contribution	366 720 797	313 834 329
Amount paid - current year	(366 720 797)	(313 834 329)
	-	-

Amounts in respect of June 2017 were paid by 07 July 2017 as per legislation, therefore there were no outstanding amounts for the financial year 2016/17.

VAT

VAT receivable	100 950 585	96 847 762

VAT output payables and VAT input receivables are shown in note 12 as net VAT receivable.

All VAT returns have been submitted by the due date throughout the year. Vat is only declared to SARS on receipt of payment from consumers.

Notes to the Unaudited Separate Annual Financial Statements

52. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' and officials arrear consumer accounts

Arrear Councillors accounts totalling R47182 were outstanding for more than 90 days at 30 June 2017 (2016: R4 621) for which mechanisms are in place to deduct amounts from the monthly allowances of each Councillor.

30 June 2017		**Outstanding more than 90 days**	**Total R**
Councillor M.L. Ngabayena - paid in full August 2017	-	120	120
Councillor N.P. Matiwane - paid in full August 2017	-	442	442
Councillor N.E. Tshabe - existing stop order deduction	-	45 505	45 505
Councillor M.N. Marata - paid in full August 2017	-	250	250
Councillor K. & D.P. Viaene - paid in full August 2017	-	865	865
	-	**47 182**	**47 182**

30 June 2016		**Outstanding more than 90 days**	**Total R**
Councillor A. M. Matana - water leak query and existing stop order deduction	-	3 018	3 018
Councillor M. Sam - existing stop order deduction	-	1 603	1 603
	-	**4 621**	**4 621**

During the year officials accounts totalling R697 902 (2016: R799 344) were outstanding for more than 90 days.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2017	2016

52. Additional disclosure in terms of Municipal Finance Management Act (continued)

Deviation from supply chain management regulations

Regulation 36 of the MFMA on Supply Chain Management (SCM) Regulations and clause 36 of the SCM Policy of 2012 states that a SCM Policy must provide for the procurement of goods and services by way of a competitive bidding process.

Regulation 36 states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the Council and includes a note to the audited separate annual financial statements.

During the financial year under review goods/services totaling R 153 917 148 (2016: R240 100 755) were procured and the process followed in procuring those goods/services deviated from the provisions of the regulations as stated above. The accounting officer approved the deviations from the normal SCM regulations.

Incident	No of contracts	Value of contracts
Emergency	7	2 986 600
Sole supplier	8	121 111 060
Other exceptional cases	10	29 819 488
	25	**153 917 148**

ELECTRICITY LOSSES	AMOUNT	%	AMOUNT	%
Technical	88 453 498	6,50	80 726 395	6,50
Non-technical	130 366 173	9,58	99 728 870	8,03
	218 819 671	**16,08**	**180 455 265**	**14,53**

Technical losses: Losses within the network which are inherent in any network.

Non-technical losses: Theft, faults and billing errors.

Attempts are currently being made to reduce these non-technical losses. Meter tampering activity from a known organised crime syndicate has been the influencing factor for escalating non-technical loss trend at BCMM and a case has been registered with the HAWKS/NPA for prosecution.

WATER LOSSES	AMOUNT	%	AMOUNT	%
Technical	63 905 429	21,64	85 446 631	30,00
Non-technical	36 894 108	12,50	31 273 467	10,98
	100 799 537	**34,14**	**116 720 098**	**40,98**

Technical losses: Per National Treasury Circular 71 issued 17 January 2014 technical losses for water losses is set between 15% to 30%. Therefore, the municipality has elected to use the maximum percentage allowed as the distribution lloss is higher than 30%.

Non-technical losses: Losses cannot be accounted for mainly due to the non-metering of this water. This challenge is currently being addressed whereby additional bulk meters are being installed in rural and semi rural areas to monitor the consumption of standpipes

53. Utilisation of Long-term liabilities reconciliation

Long-term liabilities is in respect of a DBSA loan that the Municipality has raised to fund bulk infrastructure in previously disadvantaged areas. The repayment of this loan is budgeted for annually as part of the budgeting process.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand		2017	2016

54. Cash flows from operating activities

Receipts : Sale of goods and services			
Total revenue as per Statement of Financial Performance		6 277 372 621	6 090 018 763
Less: Fair value adjustments	38	4 968 023	12 978 070
Less: interest received	26	(198 236 537)	(187 367 781)
Less: Government grants and subsidies received	29	(1 563 667 377)	(1 634 064 238)
Loss on sale of assets	4	31 188 569	176 306 785
Movement in revenue from non-exchange transactions	11	(410 439 812)	(254 235 806)
Movement in receivables from exchange transactions	13	(196 307 686)	(322 984 614)
Fair value adjustment on Investment Property revalued	38	(4 968 023)	(12 978 070)
Movement in VAT receivables	12	(4 102 823)	(13 829 436)
Movement in operating lease receivable	8	(2 771 947)	(2 929 997)
		3 933 035 008	**3 850 913 676**

Payment: Suppliers			
Total expenditure as per the Statement of Financial Performance		(6 004 416 342)	(5 586 595 839)
Employee costs and Councillors remuneration	30&31	1 605 875 434	1 464 141 056
Interest paid	34	49 359 417	60 947 417
Depreciation and amortisation	33	806 719 661	867 435 544
(Gain)/ loss on disposal of assets	4	(31 188 569)	(176 306 785)
Debt impairment	35	310 915 665	210 111 414
Net movement on unspent conditional grants	16	39 563 879	19 727 167
Movement in Post retirement medical aid benefit obligation	9	22 182 317	1 692 983
Movement in provisions relating to landfill sites	18	(8 593 400)	8 417 824
Revaluation recognized in SoCNA	15	-	(8 740 052)
Movement in payables from exchange transactions	21	(208 150 752)	476 725 730
Opening balance adjustment on PPE 2016	4	-	195 615 976
Movement in inventory	10	(2 514 299)	8 848 174
Non-cash adjustments on PPE (WIP,Transfers and Other movements)		(4 035 529 357)	14 056 235
Difference in revaluation recognised in PPE and SoCNA		4 033 049 466	(57 052 039)
Difference in depreciation and impairment reversal on PPE		(13 457 541)	(69 583 588)
Difference in revaluation recognised in Intangible assets and SoCNA		(70 841 532)	-
		(3 507 025 953)	**(2 570 558 783)**

55. Deficit for the year

Reconciliation of actual operating results to net income			
Net income for the period	40	261 983 408	370 477 574
Share of deficit of associate accounted for under the equity method	7	(15 247 675)	(30 383 365)
Capital expenditure ex grant funding	29	(669 780 335)	(670 393 964)
Actual operating results		**(423 044 602)**	**(330 299 755)**

56. Retirement benefit information

The employees of the Council as well as the Council as employer, contribute to Municipal Pension, Retirement and various Provident Funds as listed below:

:

-Cape Joint Pension Fund / L A Retirement Fund
-Cape/Consolidated Retirement Fund
-Eastern Cape Local Authorities Provident Fund
-Government Employees Pension Fund
-SAMWU National Provident Fund
-SALA Pension Fund
-Municipal Employees Pension Fund
- Municipal Councillors Pension Fund
- National Fund for Municipal Workers
-Aftredevoorsieningfonds vir Kaapse Plaaslike Owerhede

Notes to the Unaudited Separate Annual Financial Statements

56. Retirement benefit information (continued)

The Cape Joint Pension Fund's / LA Retirement Fund's last actuarial valuation was at 30 June 2016 conducted by S. Neethling from MMI Group Limited. The fund was 103.5% funded at valuation date.

The Cape/Consolidated Retirement Fund's last actuarial valuation was at 30 June 2016 conducted by S. Neethling from MMI Group Limited who certified that the fund was in a sound financial position.

The Eastern Cape Local Authorities Provident Fund's last valuation was at 30 June 2016 conducted by E. Du Toit from Alexander Forbes Financial Services, who confirmed that the fund was not in an unsound financial condition as at the review date in terms of section 16 of the Pension Funds Act. The funding level was at 100% at valuation date.

The Government Employees Pension Fund's last valuation was at 31 March 2014 conducted by H. Buck . The funding level at this date was 121.5%.

SAMWU National Provident Fund's last actuarial valuation was at 30 June 2014 conducted by E.J. Potgieter and G. Base from Towers Watson (Pty) Ltd. The report stated that the fund was in a sound financial position as at 30 June 2014.

The SALA Pension Fund's last valuation was at 01 July 2015 conducted by J.F. Rosslee of ARGEN Actuarial Solutions. The fund was 100% funded as at valuation date. The valuator was satisfied with the investment strategy of the fund and the nature of the assets is in his opinion, suitable for the nature of the liabilities of the fund as defined in the rules of the fund.

The Municipal Employees Pension Fund's last interim valuation was at 28 February 2014 prepared by Itakane Consultants and Actuaries (Pty) Ltd. The report stated that the fund was financially sound and the funding level at this date was 100%.

The Municipal Councillors Pension Fund's last valuation was at 30 June 2015 prepared by Mothapo R. and Barnard G.M. from Moruba Consultants and Actuaries. The report stated that the funding level was at 100% at the time of valuation.

The National Fund for Municipality Worker's last Actuarial Valuation was at 30 June 2015 and prepared by G. Grobler from Alexander Forbes Financial Services. The assets of the are fund are sufficient to cover 100.42% of members' liabilities.

The East London Municipal A Band and the Aftredevoorsieningsfonds vir Kaapse Plaaslike Owerhede are a fixed/defined contribution fund. It is therefore not necessary to perform an actuarial valuation for these funds.

It is Council's policy to fund 60% of Pensioner's medical aid expenses. The current costs amount to approximately R 20 million.

An amount of R239 million (2016: R 208 million) was contributed by Council, Councillors' and employees' in respect of Councillor and employee retirement funding. These contributions have been expensed.

57. Bids awarded to family of employees in service of the State

In terms of section 45 of the Municipal SCM regulation, any award above R 2 000 to family of an employee in the service of the State must be disclosed in the annual financial statements. The following is a list as recorded in the declaration-of-interest form:

Notes to the Unaudited Separate Annual Financial Statements

57. Bids awarded to family of employees in service of the State (continued)

Connected person	Position held in BCMM	2017	2016
T. Nyati	PA to SCM GM	148 827	229 443
T. Ceshemba	Relocation Officer	-	27 700
S. Majembe	Buyer	105 000	173 179
Z. Ndzondo	Bid Secreteriat	279 911	-
A. Qwede	Senior Committee Secretary	103 708	-
C. Ruiters	Tender Co-ordinator	386 121	139 343
H. Lestig	Handy Man	204 251	271 200
N. Nangu	Office Attendant	152 423	-
Total		**1 380 241**	**840 865**

Connected person	Name of institution	2017	2016
I. Joubert	Department of Higher Education	-	85 965
F. Ngcwangu	EC Provincial Planning & Treasury	998 968	400 314
G. Luthuli	Department of Social Development	-	45 800
N. Maqula	Department of Human Settlements	2 128 579	518 096
B. Nxamleko	SIU	-	213 215
D. Muzenda	National Lottery	1 131 318	1 283 641
Total		**4 258 865**	**2 547 031**